

TAMPERE UNIVERSITY

Falculty of Management

**AN ASSESSMENT OF ORGANISATION AND OPERATION OF
VIETNAM ENVIRONMENTAL PROTECTION FUND IN VIETNAM:
SITUATIONS AND SOLUTIONS**

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ABSTRACT

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1 INTRODUCTION

1.1 Urgency of the project

The 21st century is the period marked the boom of the scientific and technical achievements and modern technologies. Under the tremendous impact of science and technology advanced, the world economy in general and Vietnam in particular has a strong development. The volume of products and material wealth created in this stage is multiplied many times compared with the earlier period. However, to achieve such results we had to use and exploit a huge amount of resources while causing serious impacts on nature. Therefore, the natural environment is now on a serious decline, which is an inevitable result of the development process too quickly but do not have serious attention to environmental issues.

Over the years, the world in general and Vietnam in particular have seen a marked improvement in the evaluation of the importance of the environmental issues arising in the process of economic development. This is shown by the orientation and direction of economic development going hand in hand with environmental protection of the Party and State. The Law on Environmental Protection was amended on November 29, 2005 stipulated that "environmental protection is the cause of society, rights and responsibilities of state's agencies, organisations, households and individuals" and the Resolution No.41-NQ/TW of the Politburo was issued on environmental protection during the period of industrialization and modernization of the country, Decision No. 256/2003/QĐ-TTg of the Prime Minister was issued on approving the National Strategy for Environmental Protection until 2010 and orientation to 2020. The State started to implement programmes and projects on biodiversity conservation, measures to reduce pollution, propaganda on environmental protection to communities, as well as business sector.

In fact, many enterprises are aware of the importance of environmental protection, some businesses have initially invested in the pre-treated before discharging into the environment. However, the demand for capital to deal with environmental problems, environmental pollution is increasing and urgent.

To be more proactive and timely in implementing the action plan and become one of the best channels to support organisations, businesses or individuals to contribute in the work of environmental protection, on June 26, 2002, the Prime Minister issued

Decision on regulations for environmental protection in Vietnam. Besides, at the city / province level, the provincial environmental protection fund has been established. This is one of the financial mechanisms to support the prevention and dealing with environmental issues, environmental protection and contribute to the sustainable use of natural resources, including conservation of biodiversity.

Worldwide, the Global Environment Facility was established and has confirmed the role and significance in the work of environmental protection. In Vietnam, this form of financial mechanism is rather new and has been gradually perfected. Over nearly 10 years, the Foundation has contributed significantly to the country's environmental protection. But then there exist difficulties, problems and inadequacies in the administrative apparatus and its operation. So far, the assessment of capital efficiency as well as appropriate levels of management structure and strategy of the Fund's future is very limited. Therefore, it is necessary to clarify the current status of activities of the Vietnam Environmental Protection Fund and analysis of experience operating in environmental protection in some selected countries in the world to draw the right lessons with the reality of Vietnam, from which the measures to improve the performance of the Fund, contribute to the protection and sustainable development of the natural environment of our country.

1.2 Objective of the project

Overall objective

Based on analysis of world experience and practical context of Vietnam, propose solutions to improve the capacity and performance of the Vietnam Environmental Protection Fund and the provincial environmental protection funds.

Specific objectives

- To study the international experience of the Environmental Protection Fund;
- To assess the organisation and operation of Vietnam Environmental Protection Fund and provincial environmental protection funds in recent years, analysis of problems and shortcomings as well as the causes of problems, including inadequacies;
- To propose solutions and recommendations to improve the capacity and performance of the Vietnam Environmental Protection Fund and provincial environmental protection funds.

1.3 Scope of the study

The research analyses selected Environmental Protection Funds of some countries in the world as a background from which an assessment of organisational and operational efficiency of the Vietnam Environmental Protection Fund and some provincial environmental protection funds in the past years are developed. The research also

conducted survey activities organized by provincial environmental protection funds in some provinces such as Thai Nguyen, Dong Thap, Binh Duong,.... The research targets includes Environmental Management Agencies at central and local levels, the Vietnam Environmental Protection Fund and provincial environmental protection funds. Some other funds for environmental protection such as HCMC Waste Recycling Fund; revolving capital fund to reduce industrial pollution... are also included in the survey. The research consulted with various financial experts, researchers and other relevant stakeholders to achieve different views and opinions to achieve the objectives set by the research.

1.4 Research material/ data - Study activities

The research conducted the following activities:

- Research and analysis of international experience in environmental fund functions, duties, powers, status of activities; the results achieved; advantages and disadvantages of the operation; the measures to improve performance of the fund from which to draw lessons for Vietnam;
- Research, analyse and evaluate the organisation and operation of Vietnam Environmental Protection Fund and provincial environmental protection funds: functions, duties and powers; the organisation and operation; the results achieved; advantages and disadvantages;
- Research, analyse and evaluate the relationship between Vietnam Environmental Protection Fund and provincial environmental protection funds, coordination mechanism, the results achieved, the difficulties and problems;
- Propose solutions to improve the performance of the Vietnam Environmental Protection Fund and the provincial environmental protection funds.

1.5 Research Methodology

To accomplish the above tasks, the study applied the following methodology:

Past research analyses: Synthesis, research, documents, models and solutions have been involved in the world to improve the capacity and efficiency of environmental protection activities of Vietnam Environmental Protection Fund and provincial environmental protection funds.

Survey: Survey, statistics analysis, evaluation of the organisation and operation of Vietnam Environmental Protection Fund and provincial environmental protection funds through a number of ministries and branches at central and local levels, the object of financial support on organisational structure, management capacity, type of business financing, financing conditions and procedures for loan appraisal process and the Fund's borrowing plan.

Expert consultation: Organise meetings, seminars and workshops to exchange and evaluate the organisation and operation of Vietnam Environmental Protection Fund and local funds for environmental protection; propose measures to improve capacity, efficiency performance of the Fund.

In-depth analysis and synthesis: Using the methods of analysis and synthesis in the process of finalising the thematic reports and summary reports. The results from the actual evaluation process will be interpreted, analysed and discussed in detail. The measures and management procedures will be proposed based on the analysis and synthesis.

2 LITERATURE REVIEW - ENVIRONMENTAL FUNDS OF SELECTED COUNTRIES

2.1 Overview of environmental funds in the world

There are many initiatives that apply the direct economic incentive mechanism which are considered as effective way for the users of natural resources to enhance their way of using resources or compensate for the loss from the regulations (Miller and Yu, 2012). Environmental Fund is the financial mechanism established to address the problem of "lack of funds" for the environmental projects.

The major obstacle of the approach is the lack of financial resources, especially in developing countries (Balmford & Whitten 2003; McCarthy et al. 2012; Waldron et al. 2013). There have been increasingly funded initiatives from private sectors and markets, the lack of financial resources remains a big issue while the solution for this issue is not adequate while governments' capacity is limited (Balmford & Whitten 2003; Evans et al. 2012; Miller et al. 2013).

The Environmental Funds have been regarded as one of the effective measures to ensure conservation funding (Bayon and Deere 1998; Castro 2003; Balmford & Whitten 2003; RedLAC 2010; TnC 2012), especially for protected areas (PA) (CFA 2013). Those environmental funds can ensure sustainability of funding using various financing mechanisms and enhance inter-sectoral collaboration and institutional capacity at different levels (GEF 1998; Spergel and Mikitin, 2013; CFA 2013). Further, environmental funds can be innovative in creating incentive mechanisms such as payments for ecosystem services (PES) and act as instruments linking buyers and sellers of ecosystem services (Spergel and Taieb 2008; Spergel and Wells 2009; RedLAC 2010; Goldman-Benner et al. 2012).

The Environmental Funds have been mandated as legal credit institutions providing sustainable financing for natural conservation and sustainable development goals (Spergel and Taieb 2008). As discussed, they can be the linkage between development partners and executing organisations. Environmental funds, however, are not those who conduct conservation activities but are designed to mobilise funds from various sources then grant or lend to relevant stakeholders.

Environmental funds are differentiated from other grant-making organisations as those would have more targeted objectives, both locally or nationally. The designed and strategies of environmental funds can vary in their objectives, legal status, political environment, human capacity and donor requirements. Differences can be seen between those supporting protected areas (PAs) and those granting funds to a broader conservation objectives (GEF 1998). In any case, the key features of environmental fund are institutional arrangement, fund mobilisation and fund granting mechanisms (GEF 1998; Norris 2000; Oleas and Barragan 2003; Spergel and Taieb 2008).

Capital and financial markets have not been developed, high transaction costs and incomplete information are the problem limited access to investment in developing countries. Specifically, limitations of financial investments in the environment include:

- The failure of the government to solve environmental problems through policies, environmental laws and law enforcement.
- Less priority for the government budget allocations for the environment.
- Inadequacies of the environmental laws and poor awareness of the penalties if violated.
- Limited awareness of the community, local groups and businesses in identifying solutions to environmental problems, use of funds and financial preparation.

Environmental Trust Fund is the mechanism for the benefit of the environment. The world currently exists some kind of common environmental funds: Environmental Tax Funds (ETFs), Direct Credit Funds (DCFS), Green Funds (GFS). Some examples of environmental funds are presented in Table 1.

Environmental tax funds (ETFs)

ETFs are created when the government uses taxes, environmental fees and other charges related to the different environment for the particular type of fund. Some countries (e.g., Poland and Russia) have established a tax system to compensate for environmental damages, and also provide the tools to change the habits of causing pollution. ETFs are widely used in countries with economies in transition. Most of these countries often have the goal for financing environmental works, including nature conservation and biodiversity; environmental education and awareness raising, establishing research environment institutes to reduce environmental contamination. ETFs include financial and commercial functions and public finance, providing grants and small loans. They are usually built in the form of extra-budgetary funds to function as a unit of the Ministry of Environment. Disadvantages of ETFs are often a lack of transparency, lack of involvement and influence of stakeholders in the process of decision making and other limitations.

Direct Credit Funds (DCFs)

DCF's are established as the financial intermediaries by donors like the World Bank and the Government. The Fund is designed to finance small projects to reduce pollution or civil commerce to reduce transaction costs of direct subsidies.

Green Fund (GFS)

GFs are to support the conservation of biodiversity. Funds are often contributed by international donors to support the establishment in the form of funding or a debt swap. Most of these funds are used to cover operating costs of national parks and other community programmes. The contribution of the industrial countries in the GFs is the benefits from investment in nature conservation in other jurisdictions. The main types of GFs are the Trust Fund which shall be deducted from the income of the Fund. GFs have some incomes from many different sources. In some cases, domestic sources, such as tax revenues and income from tourism are also contributed to this fund. GFs typically require transparency in spending; decision-making process, and the participation of stakeholders such as non-governmental organisations and the community.

Table 1. Some examples of environmental funds in the world

Examples	Income	Expenditure	Benefits	Objectives
<i>Environmental Tax Funds</i>				
Hungary: Central Environmental Protection Fund	Energy taxes, product taxes, transportation fees, payment for the pollution, funding from the European Union (Poland, Hungary, Albania, Romania, Estonia)	Waste management and air pollution reduction and control of water pollution, building community awareness	Transportation companies, communities, industrial enterprises, research institutes	Financing, low interest loans
Poland: National Fund for Environmental Protection and Water Resources Management	Charges for water pollution and air, water user fees and waste	Reducing air pollution and water resources; conservation of land resources, education and environmental monitoring	The industrial business, civic enterprises, universities	Small loans, secured loans and financing
Russia: Federal Environment Fund	Pollution charges and fines	Pollution Control, Investment - development environment, building research	The civil business, industrial enterprises, research institutes	Grants

Examples	Income	Expenditure	Benefits	Objectives
		institutes		
<i>Direct Credit Funds</i>				
China Fund to control industrial pollution Tianjin	Credit IDA (International Development Association), pollution charges	Recovery and reduce pollution prevention (cleaner technologies)	The industrial enterprises	The market interest rate loan is funded (10-30%)
Russian Fund for pollution reduction	Loan IBRD (International Bank for Reconstruction and Development)	Recycling	The industrial enterprises of public and private	IBRD Rate plus 400 basis points
Slovenia: Ecological Fund	Budget allocation, IBRD loans	Reducing urban pollution	Households, corporations, businesses and commercial industry, community	Interest rates of banks in London (LIBOR) plus 200 basis points
<i>Green Funds</i>				
Bolivia: FONAMA	Debt Swap - from - Natural by non-governmental organisations and international contributions from foreign governments	Support for Conservation of Nature	Local communities, non-governmental organisations	Grants
Colombia: ECOFONDO	Debt Swap - from - Nature; the contribution of foreign governments	Environmental protection, environmental education, management of groundwater resources	The non-governmental organisations, local groups	Grants

2.2 Environmental Funds of selected countries in the world

Environmental funds in some countries can be a trust, which is a legal entity whereby individual, group, or organisation owns and manages financial funds or property for charitable goals (Norris 2000; Guerin-McManus 2001). If there is no legal foundation to set up such a trust, foundations and civil organisations often acts with the same purpose or an environmental fund may be organised under national law (Norris 2000).

Environmental funds in civil law countries are often established in an offshore location (Norris 2000). This lies with the lack of legal basis for environmental fund in such countries, or political or financial instability, or lack of transparency in the country's governance. Then such establishment is made as a measure to access to donors or to gain tax exemption (Norris 2000; Klug et al. 2003; Spergel and Taieb 2008). Differently, in common law countries with enacted statutory laws that have been granting tax exemptions for charitable organisations (Norris 2000). If the legal system cannot ensure tax exempt, environmental funds usually are registered in a country with a more flexible legal system.

Reviews of some selected environmental funds in some countries are described below.

2.2.1 Czech Republic

Overview¹

The Law developed by Czech Ministry of Environmental was passed in 1991 and created a positive impact on the environment. Total investment for the environment sector increased significantly and reached 3% of GDP in 1993. With the aim of improving environmental quality at the level of the OECD countries, the Government has raised the investment costs for protecting and restoring the environment from many sources, including the resources in water and grants from foreign organisations and multinational donors. The National Environmental Protection Fund is an organisation established to provide financial support for environmental projects in the Czech Republic. Besides the national environmental fund, there are other organisations as well as investment in national environmental assets fund (NPF), Moravian Bank of Guarantee and Development - Czech Republic (MZRB)... but the National Environmental Protection Fund still holds a key role and is the main economic engines of government responsibility to support projects to protect and improve the environment.

Czech National Environmental Protection Fund

Background and objectives

¹Mgr. Filip Kořínek, "Sources of Financing - the Environment", 1996

The Czech National Environmental Protection Fund is a financial institution established to implement the national environmental policy and complete the obligations under the international conventions on environmental protection of the European Union in which Czech is a member. The Fund was established on October 04, 1991 by the Act No. 338/1991 by the National Assembly of the Czech Republic. The rules relating to administrative organisational structure, objectives, funding sources, methods and scope are clearly defined in the Act. Accordingly, the field the environmental fund focused its financial support is²:

- Air and water environmental protection;
- Soil conservation, natural resources and natural landscapes;
- Waste Water Management;
- The technology and new environmentally friendly products;
- The application of renewable energy sources;
- The programme of the European Union – ISPA.

Over nearly 20 years, the Fund has contributed significantly to improving environmental quality, pollution prevention, training and raising awareness about the environment with activities conducted on the basis of principles of Sustainable Development.

Operation Structure

The National Environmental Protection Fund's activities divided into five parts:

- Management (Executive Director, the Board, Independent audit)
- Engineering Division (Secretary, Department of Environmental Protection, division of air environmental protection, protection of natural resources and natural landscape, waste treatment, technology and application of renewable energy)
- Department of Finance (Secretary, Department of financial valuation, Department funding, accounting)
- Legal organisations (Secretary, Policy Division, Department of External Relations and Information Technology, legislation and human resource management)
- Department of International Relations (Project Planning, Project Implementation Office)

Under the provisions of the Act, the Ministry of Environment will determine operational plans of the Fund through the Advisory Board and Council. The Fund Council consists of six members: Representatives of the Czech Republic Parliament, representatives of ministries and agencies and representatives from the Alliance of urban

² CR SEF, "State Environmental Fund of Czech Republic - Annual Report for the Year 2001", 2002

and commercial of Czech Republic. The decisions on the allocation plan are the Fund's public announcement on the mass media. Based on that, the Office will administer the fund financial aid programmes, which include expert consultation and implementation consultants, receive registration documents, organizing meetings of the Fund and decision-making.

In order to run the system of local funds effectively, on January 01, 2001, the Fund established by the local Board of Directors directly manages the funds. Starting in mid 2001, all local offices of the Fund began receiving registration dossiers. So far, the Fund can claim success in establishing close relationships with affiliates to carry out projects with evaluation procedures should be in the record and reviews submitted by local agencies.

Sources and methods of financial support

According to the Act No. 388/1991, the capital of the Fund may be obtained from³:

- Fees for discharge of wastewater into surface water;
- Fee to discharge toxic substances into the atmosphere;
- The waste charges under the Law;
- Revenue from agricultural land fund;
- Fees for groundwater consumption;
- Payment of the state budget for the mining operations;
- Penalties for violations of laws on environment;
- Fines for those financial support violating regulations on the use of capital;
- Subsidies from state budget;
- The credit system;
- Contribution of the organisations and individuals inside and outside the country;
- Other sources of revenue (grant from the European Union - (Cohesion Fund) and the European Union Regional Development Fund).

Also under this Act, the Fund may use the funds to invest for the following purposes:

- Support for non-investment activities and investments related to protecting and improving the environment of organisations and individuals;
- Support research, development, manufacture and application of appropriate environmentally friendly technology;
- Support activities to improve water resources;

³ OECD, "Review of the Czech State Environment Fund", 1999

- Support the monitoring of environmental and ecological systems;
- Support for communication campaign and raise awareness on environmental protection;
- Payment for operating expenses of the Fund.

The grants are given in the form of grant aid, preferential loans, and subsidised interest rates and guarantee loan.

Operation situation⁴

Management:

Until December 31, 2009, the staffs of the Czech Republic National Environmental protection Fund are 410 people.

The Board of the Fund is a consulting organisation under the Ministry of Environment. The goal is the establishment of the Council to discuss the important issues in the creation and use of the Fund's capital. The Council members are appointed and dismissed by decision of the Minister of Environment.

The Czech Republic National Environmental protection Fund has particular emphasis on education and raising the professional qualifications for employees. In 2008, the Fund staffs has completed a professional training programme for construction, engineering, economics and law - the areas closely related to the handling of projects and activities in the proposal. In addition, staffs are also trained in fund raising capacity through active participation in course management skills and communication. Besides, the international co-operation also requires proficiency in English, communication and professionalism. That is why the development of language skills is an integral part of the process of developing the capacity of staff of the Czech Republic National Environmental protection Fund.

Budget and financing activities:

The Czech Republic National Environmental protection Fund provides financial assistance in the form of finance, loans and interest rate support. The capitals of the Fund include:

- Grant from the European Union - (Cohesion Fund) and the European Union Regional Development Fund;
- State Budget;
- Fee for pollution, including waste water fees and charges on agricultural land, air pollution fees and other charges under the Law on Waste Discharge;

The main activities of the Fund is to advise, receive and evaluate dossiers of registration, organizing agenda to approve documents, disbursing financial support for

⁴ CR SEF, "State Environmental Fund of Czech Republic – 2009 Annual Report"

beneficiaries / projects approval, audit and evaluate the effectiveness of funded activities to support and enforce penalties for breaches of contract.

In 2010, the Czech Republic National Environmental protection Fund has taken two major programmes, Environment Operational Programme and Green to Savings. Cooperation Programme between Switzerland - Czech Republic with the financial support for environmental field worth USD 142,71 million, also began to be carried out from 2010 and is expected to end in 2017. Funds also support small projects in the field of air protection, improve the natural environment, protecting natural resources, education, counselling, and environmental awareness.

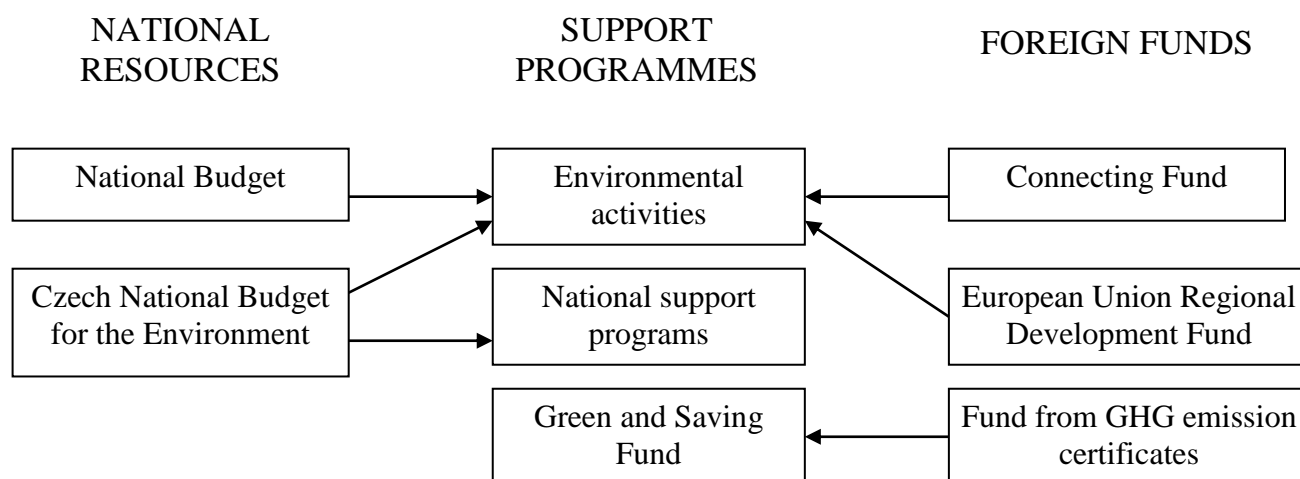


Figure 1. Czech fund resources and environmental programmes in 2009

Reviews

Advantages

- Capital investment in the Fund is stable, diverse and increasingly expanding. The Fund does not depend on government budgets. This is a key condition to ensure long term viability and performance of the Fund;
- Structure of the Fund is fairly compact, clear, consistent and specialized;
- Fund staff are highly qualified, professional and well-managed;
- Procedures for financial management are clear and strict;
- Financial aid process is well organised (especially in the stages of evaluation and ranking of projects), consistent with most local areas with positive policies to improve the efficiency of fund management;
- Rate of project costs that the Fund can support (from 80% to 60%), tightening the criteria for selecting projects;
- Applying cost analysis tool to verify benefits and financial needs of the proposals is applied in the evaluation process registration documents;
- Use "two steps" authentication method to process the records more efficiently;
- Appreciate the importance of cooperation from the regional branches to strengthen relationships between central – local levels;
- Information on the Fund's activities is widely available and transparent;
- The relationship and cooperation with international organisations is set up very early and has brought positive contributions to both capital and operating programmes of the Fund.

Disadvantages

- The majority of the members of the Board are members of Congress or senior officials in the government who support the operation of the Fund could be under pressure from politicians and policy.
- The policy decisions of the Fund's activities do not involve input of the business representatives and investors.
- The relationship between the Fund and non-governmental organisations operating in the domestic environment is not clear.

2.2.2 Poland

Overview

The Environmental Fund is a financing mechanism established in the early transition of the economy to promote environmental projects in many different ranges. Until September 12, 2002, the Environmental Fund system in Poland consists of the National Fund for Environmental Protection and Water Resource Management (National Fund), the 16 regional funds, more than 370 local and 2500 urban funds. In addition, the Ecology Fund (Ecofund) is a form of special funds - an independent, non-profit capital input derived from debt conversion for the environment (debt for environment swap).⁵

At the national and regional level, environmental funds operate independently under the management of the Executive Board and the follow-up monitoring of the Council (the Council members appointed by the Government). Minister of Environment manages and monitors the National Fund, the local level manages local funds. Apart from the ecological fund, the Fund's operation under the transfer and receive of revenue from pollution charges and fines (the principle of PPP) and use that money to support environmental projects.

The Environmental Fund plays an important role in the field of environmental protection investment. The form of the Fund primarily supports non-refundable aid and preferential loans, sometimes equity investment in environmental projects. Approximately 27% of the pollution charges collected will be transferred to the National Fund and the remaining 73% is divided equally among the funds at the local level.⁶

⁵ OECD, "OECD Environmental Performance Reviews – Poland", 2003

⁶ Anna Czyżewska, "Role of the National Fund for Environmental Protection and Water Management in Financing Water Projects in Poland", 2004

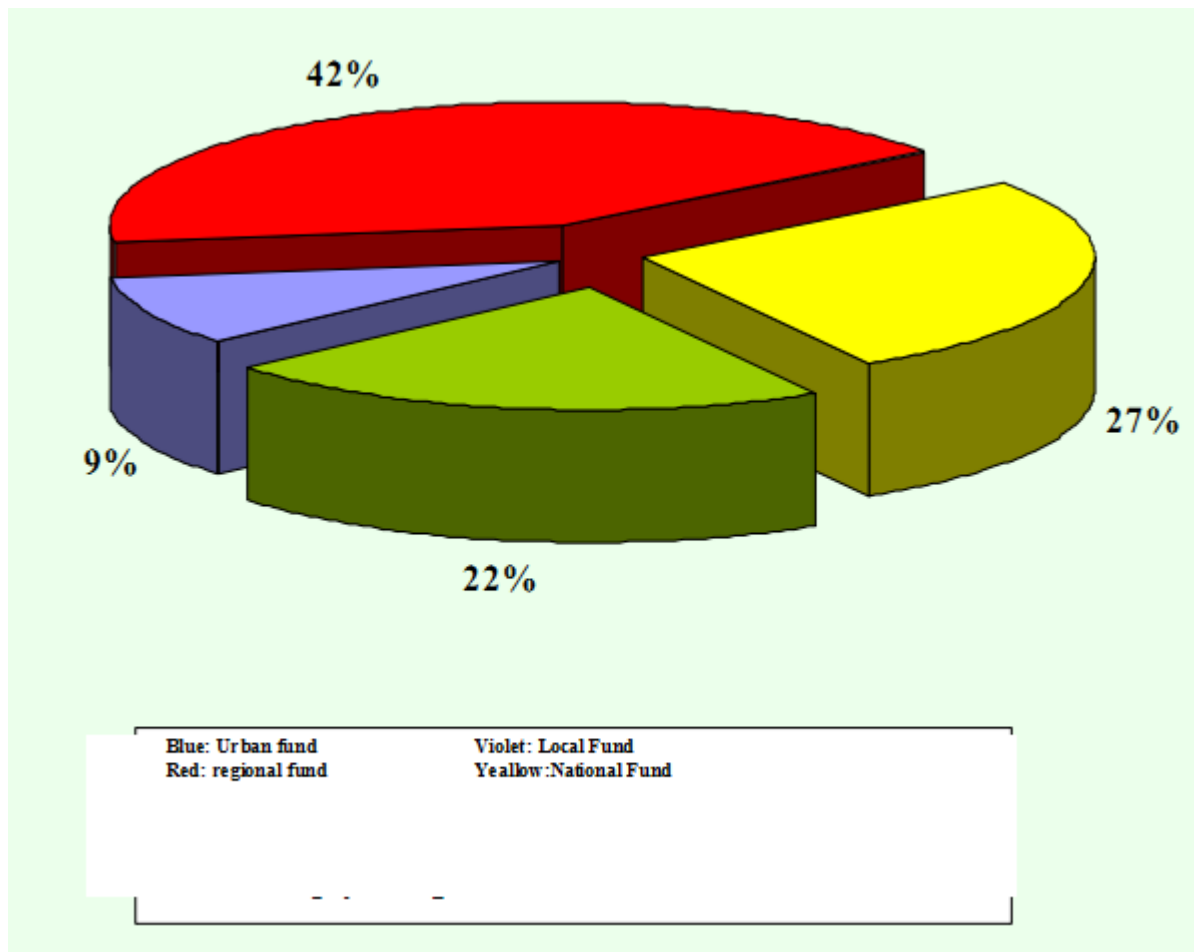


Figure 2. Distribution of funds from fees and environmental fines for Environmental Fund in Poland

In addition to the fees and pollution fines, the National Fund and local funds receive some other sources such as grants from foreign organisations and main income from the Fund's operations. In recent years, these funds are growing and even more than the tax revenues from fees.

National Funds for Environmental Protection and Water Resources Management

Background and objectives

The National Fund for Environmental Protection and Water Resources Management was established on 27 November 1989 and is an organisation with legal responsibility and independent financial management. The Fund operates under the LEP with the main mission is to provide financial support for projects on water management and environmental protection. The Fund is the largest national organisation of Polish collaboration with foreign funds and international financial partners in the field of environmental protection activities. In recent years, the Fund also assumes the important task to use in an effective way investment from the European Union in the upgrading and modernization of infrastructure for environmental protection in Poland.

Operation Structure

The Fund monitoring is conducted by the Council and the Executive Management. Council members are appointed under decisions of the Minister of Natural Resources and Environment and Forestry. The number of members of the Council from 13 to 15 people, including representatives from the fields of science, representing the Ministry of Natural Resources and Environment and Forestry, representatives of local authorities, representatives of the Ministry of Finance, representatives of environmental and non-governmental organisations... Responsibilities of the Council is monitoring the action plan approved in subsequent years of the fund, approve the selection criteria for records as well as principles for extend loans and approval of investment decisions and financial loan / grant is highly valued and approved the report and annual financial balance of the Fund.

The Fund Steering Committee consists of the Chairman and Vice Chairman (of the existing structure is a chairman and three vice-chairman) appointed by the Minister. Responsibilities of the Board of the Fund include:

- Develop work plan, which clearly states the priority activities
- The decision on the project / activity will be receiving financial assistance from the Fund (except the cases with requirement higher than €300,000)
- Financial Management
- Recruitment of personnel for the Fund office
- Report on the Fund's activities to the Council for monitoring

Sources and methods of financial support

Operation of the Fund may be obtained from the following sources:

- Fees for use of the environment of economic activity
- Penalties for violations of environmental protection laws
- Fees and franchise to use the Law of geology and mining
- Fees under the Water Management Law
- Sources of income from the operation of the Fund (interest rates, recycling cars...)

The method of financing that the Fund can provide:

- Funded primarily used for environmental education projects, pilot projects and developing new technology with high degree of risk
- Preferential loans: interest rate incentives is 5.75% / year (2004), for projects on water management, the interest rate is no higher than 1% / year
- The interest rate support (for loans from the Bank of Environmental Protection)
- Free of Debt: This is a form of incentive for borrowers to be fully implemented following requirements:

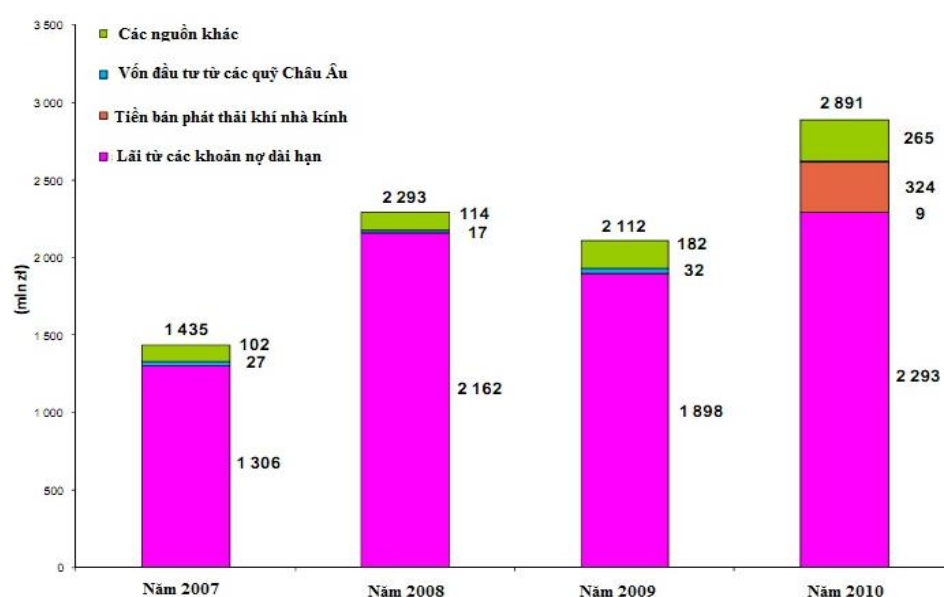
- ✓ Project finished on time;
- ✓ Achieving environmental performance as proposed in the plan;
- ✓ Have paid at least 50% debt under the terms and provisions in the contract;
- ✓ To meet the requirements of tax and environmental fee.

Investment in shares

▪ Operation situation

After nearly 20 years, the National Fund for Environmental Protection and Water Management has made significant achievements in environmental protection work in Poland. In the period 1989 - 2008 more than 14,000 support contracts were signed (primarily loans and grants) with PLN 21,4 billion to be disbursed. Sources of funds for the projects implemented during this period also exceeded PLN 76,5 billion. The largest allocation of capital is to protect and manage water resources.

In 2000, the Fund has disbursed PLN 1225,7 million (approx. 270 million Euro), including PLN 456,2 million as funding for water protection activities. The Foundation manages a variety of investment from foreign sources, including the Fund under the European Union and Ecobank.⁷



Unit: Million PLN

Figure 3 note: blue: other sources; green: capital from Europe Fund; orange: money from CDM; pink: benefit from other sources

Figure 3. Fund structure of Poland National Funds for Environmental Protection and Water Resources Management from 2007 - 2010

⁷ Quỹ quốc gia về BVMT và Quản lý nguồn nước, “Báo cáo hoạt động Quỹ quốc gia về BVMT và Quản lý nguồn nước năm 2010” (tiếng Ba Lan), 2011

In 2010, the Fund has disbursed PLN 4,894,896,000 (including capital investment from the European Fund) on the implementation of thousands of projects to protect and manage water resources, environmental protection and protection of soil. Among them:

- The projects / activities and protect water resources management: PLN 4,153,301,000 (75% of the total amount disbursed)
- The projects / activities for environmental protection of land - PLN 396,945,000 (7% of the total amount disbursed)
- The project / activity to protect the atmosphere and climate - PLN 344,650,000 (6% of the total amount disbursed)

Reviews

Polish National Fund does not merely provide financial resources within the environmental protection but also the implementation of environmental projects of the European Union and the start of the progressive trend of environmental protection as energy efficiency and using renewable energy sources, establishment of ecological areas... This is also a reliable partner and is responsible for financial institutions at national level and abroad. The international relationship to expand capital and professional capacity of the Fund is increasingly diversified and increased.

This type of national environmental funds has emerged in many countries around the world, but in Poland it plays a particularly important role even in the transition of the economy. In the system of environmental funds from central to local levels, along with the financial institutions there are also investment funds for sectors, such as ecological protection funds... The National Fund for Environmental Protection and Water Management plays the central role. There is a close link between the activities of the National Fund and the policy issued by the Government. The Fund is also a tool to implement the national policy, while the terms of the policy are to create conditions for the operation of the Fund, including capital expansion to increase capacity and range of activities... This mechanism reveals the advantages and disadvantages. Advantage of the Fund is the relationship and close proximity to the targets that receive financial supports and thus be able to accurately reflect local needs. Another advantage is the capital - revenue ratio and long-term stability when being associated with the state budget and tax sources, environmental costs; range of unrestricted funds and finance of the large-scale project - this is especially important because, in many cases, capital of the Fund is not large enough to meet the capital needs of environmental protection projects. However, this is also likely to become the fund's downside when businesses are increasingly more aware of environmental protection, the revenues from pollution charges and fines also decreased. Therefore, the Fund should have a policy to approach other sources of capital from the private or non-governmental organisations.

2.2.3 Germany

As of 2008, Germany was one of four countries with the highest number of environmental funds in the European region (France: 40 Funds, Germany: 35 Funds, U.S.: 31 and the Switzerland: 28), followed by the Netherlands, Belgium, Ireland with 9 Environmental Funds.⁸

A number of environmental funds in Germany are:

- German Federal Environmental Foundation (Deutsche Bundesstiftung Umwelt dBu);
- Some of the funds for conservation projects (state funds) by the Ministry of Environment, Nature Conservation and Nuclear Safety (BMU) administered and supervised by the Federal Department of Nature / Federal Agency for Nature Conservation (BFN);
- Regional Environment Fund (Environmental Fund for Lebanon) by the German Ministry of Development Cooperation (BMZ) operated from 2007-2010;
- Some types of development funds of the German Federal Institute (e.g. GTZ, KfW...) as well as a number of funds and non-governmental organisations of the German Federal financial assistance in the field of biodiversity projects in the world;
- Other private funds.

German Federal Environmental Foundation (dBu)

Background and objectives

German Federal Environmental Foundation (Deutsche Bundesstiftung Umwelt - dBu) is a fund established under the Civil Code of 1990 (the Law passed by the German Federal Parliament). The Fund was established through the privatization of steel group Salzgitter AG under state ownership, and is one of the largest funds in Europe.⁹

DBu plays an important role and is the driving force for the innovation process. Through meetings of the Committee in January 12, 1990, the Fund made the main task is to encourage, promote environmental protection projects for small and medium enterprises.¹⁰

Areas of focus of dBu's financial support are the following:

- Support for eco-products and environmentally friendly production processes;

⁸ Novethic, 2008, What role for environmental funds within Sustainable and Responsible Investment (SRI)

⁹ Antoinette Bismark, 2007, Germany: Deutsche Bundesstiftung Umwelt DBU <German Environmental Foundation>

¹⁰ DBU, 2011, Innovation for the Environmental 20 years Deutsche Bundesstiftung Umwelt.

- Energy and climate protection: climate protection, energy efficiency and renewable energy sources;
- Architecture and Construction: Environmental Protection land, the building measures to save resources...;
- Application of environmental studies: the scholarship programmes, products and chemical methods of producing sustainable products and production methods of biotechnology;
- Sustainable Land Use: the production of agricultural products, sustainable forest use;
- Scope of nature: nature conservation in areas used for farming activities, restoration of degraded habitats, nature conservation in densely populated areas, conservation natural protected areas;
- Environmental communication: methods and communication tools, test and use new methods of communication, electronic communication, ecological management system for small and medium enterprises;
- Environmental Education;
- Environment and cultural property: the protection of cultural property from an environmental perspective, cooperation in the protection of cultural property and nature conservation...¹¹

Operation Structure

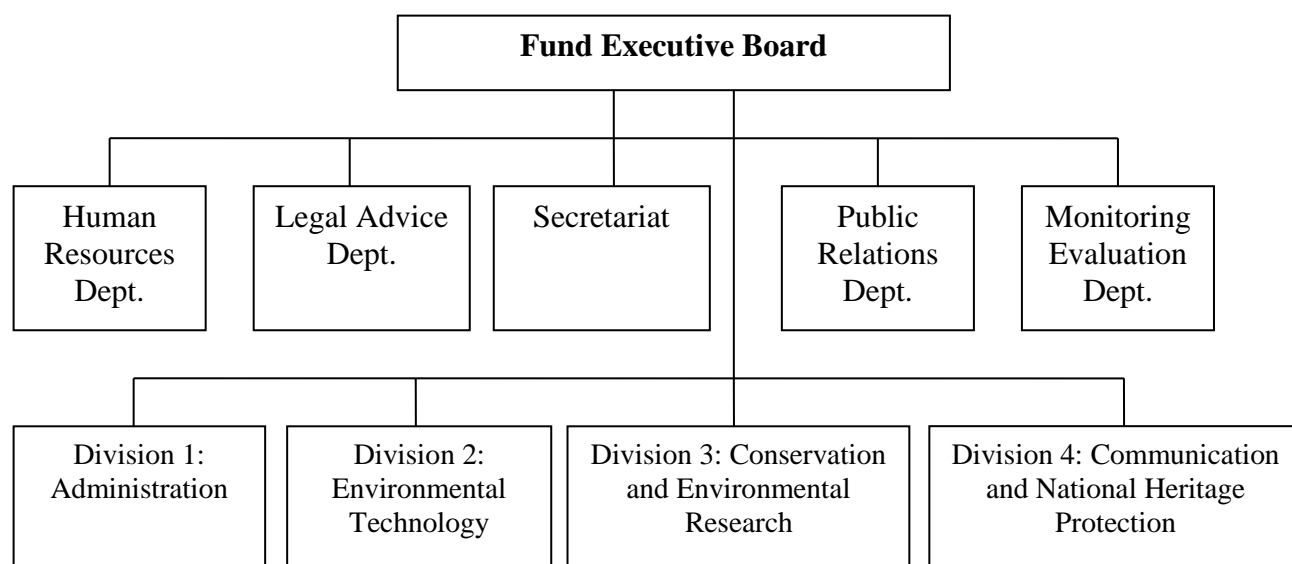


Figure 4. DBU's organisational structure¹²

¹¹ Antoinette Bismark, 2007, Germany: Deutsche Bundesstiftung Umwelt DBU <German Environmental Foundation>

¹² DBU, 2011, Innovation for the Environmental 20 years Deutsche Bundesstiftung Umwelt

DBU Fund has the legal capacity under the civil law. The Regulation provides the organisational structure and activities in many different functional areas and capital management.¹³

Head of the Fund is the Fund's Executive Committee, consisting of 14 members appointed by the Federal Government. The Committee representing the Secretary General and is responsible for coordinating the activities of the Fund through the Fund office.

Sources and methods of financial support

The Fund's initial capital is 1,288,007,300 Euros through the privatization of steel group Salzgitter AG and the interest (income) each year from the funds that are used to finance environmental activities with approximately 50 million euro annually.¹⁴

Method of support: financial assistance (non-refundable grants) for individuals and legal bodies.

The project is required full description information: name, the goal of the project, state of technology, financial projection, duration of the project... technological innovation.¹⁵

DBU specially funds to encourage collaborative projects between small and medium enterprises with research institutes. Especially the project from research institutions to other institutions and individuals concerned shall be responsible for implementing and expansion projects.

Three main criteria for approval of project funding requests include:

- Innovation and technology projects which require modern technology compared with existing research.
- Characteristics of the model are required to apply widely and feasibly to the market conditions in a short time.
- Environmental benefits: innovative to bring new and additional measures for environmental protection activities. Decision on grant funding depends largely on the contribution of the project in reducing environmental degradation.¹⁶

A more important task of the Fund is to award annual Germany environmental award. This award is the largest environmental award in Europe (the prize is worth 0.5 million Euros).

¹³DBU, 2011, Innovation for the Environmental 20 years Deutsche Bundesstiftung Umwelt

¹⁴ Antoinette Bismark, 2007, Germany: Deutsche Bundesstiftung Umwelt DBU <German Environmental Foundation>

¹⁵Antoinette Bismark, 2007, Germany: Deutsche Bundesstiftung Umwelt DBU <German Environmental Foundation>

¹⁶ Antoinette Bismark, 2007, Germany: Deutsche Bundesstiftung Umwelt DBU <German Environmental Foundation>

Performance

The success of the Fund principles: to help build foundation for technology development and is a pioneer in defining the objectives to be implemented in the coming years.

Over the course of operation 20 years (from 1991 to 2011) the Fund has supported more than 7,800 environmental protection projects with many different areas. In the field of biodiversity conservation: dBu has promoted conservation projects (with more than 46,000 ha of protected areas of national importance, and ensure the long term conservation purpose).

The results of its operation in the field of environmental protection is encouraging, such as funding for research projects of new products "eco washing powder - green powder", contributing to reducing waste during washing; climate protection by reducing CO2 emissions by 300,000 tons and a campaign to control the energy use in buildings....

In 2011, with a capital of 1.8 billion euro, the dBu is the biggest environmental fund in Germany and Europe. Total expenditure over the year (Euro) in 2003: 43.4 million euro; in 2005: 45.7 million euro; in 2006: 47.7 million euro. Spending on biodiversity in 2006: 20% of total spending.¹⁷

Reviews

In Germany, the number of small and medium enterprises account for more than 99%, these enterprises play a central role and also the driving force behind the economy. dBu plays a key role in helping businesses prevent pollution and environmental protection. Specifically, to achieve both goals, the efficient use of resources, energy, raw materials and creating daily use environmentally friendly products and goods are prioritised.¹⁸

Fund established under the Civil Code in 1990 and has legal capacity, with large financial resources, long-term stability for the implementation of activities for environmental protection projects annually.

The departments maintain regular contact with individuals and organisations for financial support, necessary documents and additional requirements.

¹⁷ Antoinette Bismark, 2007, Germany: Deutsche Bundesstiftung Umwelt DBU <German Environmental Foundation>

2.3 Experience of Environmental Funds in the World and lessons learnt for Vietnam

2.3.1 Experience of Environmental Funds in the World

Fund organisational structure

The processes of strategic proposals, approval and control of funds' operation is by a leadership board including managing director of the Fund and the Management Council's executives. This board is responsible for:

- Develop annual operating plan and budget implementation;
- Develop and implement recruitment, receipt, evaluation and selection of proposals;
- Develop and implement financial management systems, management and monitoring of project activities;
- Identify capacity needs and implement programmes to meet needs;
- Audit public finance activities;
- Develop and implement strategies to raise capital;

Fund management apparatus can be held by one of the following models:

- The management under the Ministry of Environment including: the technical unit responsible for project selection; the unit responsible for economic cost-benefit assessment, the economics of the project and proposed strategy. With this method, the strategy and implementation process, if there is no transparency and specialization, staff will not be trained sufficiently and will not have enough capacity to meet the requirements of the job.
- The management apparatus includes representatives from several other ministries: This method is applied in the Czech Republic Environmental Protection Fund and other funds in most of Europe. The financial managers will not be under one ministry, which will ensure stability and flexibility of management, and reduce corruption as well as pressure on each employee.
- The management hierarchy: For this model, power management is decentralised to local level, for example, an initial evaluation process or trust funds to partially fund local activities (possibly used for personal purposes or to comply with the programme activities of the central fund - for example the Regional Fund in Poland). This model requires a sound management system, there is a close link between central and local levels. On the other hand, this model also increases the powers and responsibilities of the Regional Fund.
- The private management: In fact, almost all activities of the Fund can hire the private enterprises. In many funds, staff appraisal, technical issues, economic and ecological projects are implemented by employees hired under contracts. The task

of managing the Fund's financial performance is done by hiring the banks to ensure compliance with the provisions made (such as bank operating procedures), or the private companies make the task of assessing the financial problems in the market.

Overall, the fund may hire staff with qualified professionals from different localities. The Fund will have different approaches to achieve balance between wages paid to employees and their dedication in work. Most of the funds keep operating costs range from 25 to 30%, however this cost is not sufficient to fund the development of professional competencies. So expanding the programme to attract capital investment also plays an important role in increasing capacity and performance of the Fund.

Operating mechanism (funding, disbursement methods...)

Operational strategies

From these above environmental funds we can now draw an important lesson that before making decisions to solve the immediate problem of the Fund we should have a basic vision of the foundation. When deciding on the scope of its operation, first is to identify the problem to be solved and then identify the types of activities that can help to solve the problem. Determining the scope will bring many benefits, for example, attracting fund support, understanding and learning experiences available from the fund that operates in a similar manner.

Most funds have a target corresponding to national policies, for example, the goal is a national environmental strategy, action plan or some cooperative activities. When the Fund's objectives in the national plan, the Fund needs to adjust its objectives in a flexible way to select the active region and set their own priorities.

Typically the fund will focus on the objectives and strategic activities which are feasible and can be done quickly. This will bring greater efficiency and obtain all the proposed projects in an "open door" manner. The scope of activities can be extended if conditions are right. Also, if the Fund begins operations with a wide range of tasks that they can use the "pilot case" and focus activities on a certain area before expanding.

The project selection criteria:

This should distinguish the operating costs (e.g. management costs of conservation areas) and support the project costs (the operating time with limited funding that can be maintained or removed). There are some environmental funds committed to providing long-term operating costs such as salaries for staff reserves but with attached conditions (e.g. enhanced activity to protect flora and fauna), or more commonly to support one-time expenses such as purchasing equipment, training, functional areas...

The non-governmental organisations or other community organisations, or a number of individuals and private enterprises proposed to support environmental projects to meet certain conditions: The project potential growth, revenue development and being

potentially self-sufficient after the initial stage; the projects in education, institutional capacity building... may require a longer time. In order to solve this problem is to determine project success or potential and use them as a foundation for expanding the project to avoid risks and increase capital investment.

Overall, the success rate of the project will be higher if there are required beneficiaries to contribute, whether in kind or in labour force.

Many funds are interested in environmental revolving funds, especially when used to support human activity in order to secure initial funding. But this goal is difficult to achieve because most funds lack professional experience in providing a credit effectively. A more feasible way to achieve this goal is to establish relationships with other organisations for non-government credit.

Capital input

The Fund's capital on the environment including the government budget; pollution fines; production fees; licensing fees and copyright; cash donations; cash assistance; and loans from financial institutions.

Since its development, the Fund is facing with environmental issues that require the expansion of capital into the fund. Even during the operation, the Fund should not stop seeking additional capital to meet the sponsorship, including co-sponsored, and maintains long-term operation. Most agreed that the Fund should diversify capital in order to avoid dependence on one or more certain funds. However, the Environmental Trust Fund in developing countries, most have only one source of capital funds, also known as the "backbone" of the Fund.

When formulating a strategy for raising capital to consider the nature of the Fund, as a general rule, the sinking fund and earmarked fund will easily attract more investment. In other words, the endowment fund will encounter more difficulties in the capital increase and maintain long-term activity, so these funds are often associated with the sinking fund for disbursement in beginning necessary documents of the programme.

The Fund's investment that can be mobilized:

- Multilateral Investment Source: from the banks like the World Bank, African Development Bank, the Asian Development Bank, China Development Bank, Inter-American Development Bank... and other international agencies such as United Nations Development Programme, the European Union... to support economic development through the resources from developed countries. The grants are transferred in the form of loans to central government, special projects and sometimes for the private sector. Multilateral funding for the Fund's is the Global Environment Facility (GEF).
- Bilateral Investment Source: The support may be in the bilateral cooperation, technical assistance or co-funding a specific programme selected by the Fund. The

U.S. government has supported the establishment of at least 18 necessary documents funds, mainly through the Agency for International Development (USAID) and the Environmental Americas Initiative (EAI). A number of other bilateral donors to the Environment Fund including Canada, Denmark, Germany, Switzerland, the Netherlands and Finland. According to Organisation for Economic Cooperation Development's Development Assistance Committee (OECD - DAC), each year the bilateral donors contributed about \$ 50 billion for programmes for sustainable development of developing countries. Although this number is decreasing in recent years, but it remains an important source of funding directly to support programmes in developing countries.

- The debt converted to natural resources: the debt relief in exchange for a commitment to mobilize resources from the domestic environment. Debt crisis of Latin America in the 1980s has led to the birth of the debt converted to natural resources, a financial mechanism to allow developing countries external debt decreased by increasing the conservation work. Since the first conversion loans for Bolivia in 1987, so far more than 30 countries benefit from debt conversion into natural resources with the environmental values of more than 1 billion USD.
- The investment in the country: some resources can be mobilized:
 - ✓ Contributions from individuals;
 - ✓ Contributions from local organisations or international cooperation in the country;
 - ✓ Contribution from the charity;
 - ✓ Pollution fines: "brown" funds in Eastern Europe is the main capital from pollution fines and transfer the funds into a "green" fund in nature conservation;
 - ✓ Revenues from gasoline taxes to fund the Environmental Trust Fund (Environment Investment Fund in Namibia);
 - ✓ Sales Tax for hunting equipment and fishing (credit fund for wildlife restoration and aquaculture in the United States has earned hundreds of millions of dollars);
 - ✓ Government revenue payments for the oil drilling in offshore areas (Soil and Water Conservation Fund has collected U.S. \$ 1 billion from this source);
 - ✓ Additional charges from monthly water consumption (income of the fund in forest conservation in Bogota, Colombia and Ecuador);
 - ✓ Lottery revenues (the U.S. state of Colorado has extracted 60 million dollars per year for Colorado Fund for private wilderness protection);
 - ✓ Surcharge of about 1-2% of hotel rooms for tourists (which is the source of capital to establish Caicos Islands Conservation Fund in Turkey);

- ✓ Timber fee (Malaysia use this capital to fund the Sabah Foundation National Park).

Methods of financing

- **Non-refundable aid:**

Sources of financial support for the most attractive candidates to apply to the Fund are non-refundable aid. A non-refundable aid investment is transferred from the Fund directly to the recipient. Sources of support is transparent and do not require repayment from the recipient, but will have conditions attached (the receiver will have to pay back the aid if used improperly as planned or as in the contract, or not achieve the purpose set out initially). Almost all of the Trust Fund in the Central and Eastern Europe (CEE) countries and Eastern Europe, Caucasus and Central Asia (EECCA) are part of or all as a non-refundable aid.

A major limitation of the grant aid is not providing the full incentives to save resources and aid projects should be monitored closely for the results achieved. In addition, applicants often assume that if they have to pay for pollution, they will be entitled to grant aid without considering the quality of the project.

- **Preferential loans:**

Many environmental protection funds in Central and Eastern Europe countries provide loans with preferential terms and attractive features than other lending sources in the market. These loans can be "incentives" in the following ways: lower interest rates, time extension, and flexible down payment.

Preferential loan is the preferred tool in countries with poor financial market development. Preferential loans will generate revenue with "original" and "interest" amount, which can help to fund revolving funds while valued funds are not depreciated due to inflation. This method gives the borrower the responsibility and attitude to implement the project, grant aids and concessional loans to promote financial disciplines.

The biggest disadvantage of preferential loans is the risk of not paying debts on time. While the Environmental Protection Fund typically which requires borrowers to mortgage the property are not acceptable in the absence of a payment term. Preferential loans also require higher administrative costs due process requirements as well as a full evaluation of resource management. Another issue related to the preferential loan is the suitability for large financial investment recovery time of about 15-20 years. For capital revolving fund, a long repayment period will limit the mobility of capital. Therefore, most of the Fund for preferential loans would have the payback period of 3-5 years.

- **Support rate:**

Support rates are special cases of non-refundable aid. Support rates are used to reduce the interest rate on a loan. In some cases, the interest rate support is limited to a

specific interest rate (e.g. 5 or 10%) or in accordance with the percentage reduction less than 2% or 5% compared with commercial rates.

The difference between the interest rate support grant is that it is possible to expand independently, even if there is no additional funds. Besides, the interest rate support is only given when the project has achieved all the financial targets and is a trusted lender to invest in it. Therefore, the prerequisite for using the method of interest rate support is the commercial banking system in such country to thrive.

- **Loan Guarantees:**

Loan guarantee is a mechanism by which a third party's liability compensation received loans if the borrower fails to pay back. Theoretically, the loan guarantee can be made by any legal entity which has the financial resources approved by the lender. Depending on the level of risk related to the loans, the guarantor may be responsible for part or the entire loan. Loan guarantee's fund has been applied in the Czech government, but the most of the Central and Eastern Europe / Eastern Europe, Caucasus and Central Asia do not use this mechanism.

Loan guarantee will reduce the risk of failure to pay back and is beneficial in lowering the rate compared to normal commercial rates. This mechanism can help the environment agencies accept large loans with long repayment period. However, as well as preferential loans, collateral issues need to be considered in cases where the sponsor accepts responsibility to repay the debt if the borrower fails. Therefore, the environmental agency should be staffed with skilled, qualified risk analysis capabilities.

- **Investment in shares:**

For private enterprises, joint stock can be viewed as a source of capital, used for many purposes such as to expand and modernise short-term debt. This mechanism is best suited for businesses planning to manufacture environmental control equipment or provide consulting services. Stock is often used to provide support to businesses to protect or improve the environment. In terms of support for equity investments, the Fund will purchase shares of the business. These shares can then be resold for profit. Another important issue related to this tool is to choose when to sell stocks. This requires knowledge of equity investment; however, this tool has not been used in most Central and Eastern Europe / Eastern Europe, Caucasus and Central Asia environmental funds. So far, only a few environmental funds made equity investments (for example, the Polish National Fund).

Table 2. Incomes and support programmers of Environmental Funds in some selected countries (2000)

Countries	Env. Fund	Income in 2000 (mil. USD)	Main income (%)		Disbursement (%)	
			Main fund	Support fund	Main fund	Support fund
Bulgaria	National Environmental Fund	23,8	Product tax (liquid fuel) – 83%	Environmental fund – 4,5%	Non-refundable aid – 60%	Preferential loan – 30%
	Ecology Fund	3,3	Debt converted to environmental fund – 94,6%	Financial activities – 5,4%	Non-refundable aid – 98,2%	Preferential loan – 1,8%
Czech Republic	National Environmental Fund	90,2	Pollution fee – 50,3%	Debt (interest inclusive) – 40%	Non-refundable aid – 69,3%	Preferential loan – 26%
Hungary	Central Environmental Protection Fund	102,2	Product tax (lubricant) – 51%	National budget – 30,5%	Non-refundable aid – 94,8%	Preferential loan – 5,2%
Poland	National Fund for Environmental Protection and Water Resources Management	364,6	Debt (interest inclusive) – 59,2%	Pollution fee and tax – 27,8%	Preferential loan – 72,2%	Non-refundable aid – 25,6%
	Ecology Fund	38,5	Debt converted to environmental fund – 81,1% Swiss support – 9,2%	Financial activities – 9,7%	Non-refundable aid – 100%	0
	Local Environmental Fund - Krakow	24,6	Pollution fee – 46,7%	Debt (interest inclusive) – 39,9%	Preferential loan – 84,7%	Non-refundable aid – 15,3%
Slovakia	National Environmental Fund	32,4	Pollution fee – 61,9%	Fee from business sectors – 25,4%	Non-refundable aid – 94,2%	Preferential loan – 5,4%

Source: Environmental Fund reports from some selected countries, REC, 2001

- **Monitoring and evaluation:**

The Environment Fund are increasingly being asked to report the performance and operating results more closely, not only in quantity but also the efficient use of capital that the Fund has supported projects.

Monitoring and evaluation (M & E) are two different areas, but closely related. They are two management tools allowing assessment of performance and results of fund operations. Through these two tools, the environmental fund and the fund's partners can learn from the experience and knowledge to apply to projects and programmes that support funds.

Another important factor to monitor and evaluate activities of the Fund is to apply at both project level and programme. Monitoring and evaluation at the programme level for the Environmental Trust Fund to grasp the whole process undertaken and the results. For example, (Fondo Mexicano para la Conservación de la Naturaleza A.C.) FMCN fund in Mexico and Peruvian Trust Fund for National Parks and Protected Areas (PROFONANPE) fund in Peru have sought to create change in the system of protected areas by supporting private conservation areas; The Brazilian Biodiversity Fund (FUNBIO) fund in Brazil trying to develop partnerships with private sector through a number of activities of the Fund. In these cases, individual managers used M&E to evaluate in a more comprehensive way by synthesis from the single operation. Monitoring and evaluation at the project level for the recipient fund support the performance and determine the impact of each project or activity.

2.3.2 Lessons learnt for Vietnam

- The Fund's operation is often effective in the private sector and non-governmental organisations, or with the participation of the government with a minor role (Canada, China). The report “Environmental Funds: the First Five Years, 1995” have emphasized the advantages and disadvantages related to the structure of the Fund. The report stresses that "...it may be the independence from the Government will increase the confidence of investors that their money will not be used unreasonably or invest in other programmes of the Government...", or a more stable source of money will not be affected by the changes in state policy. However, in some countries (Poland, Bulgaria...), State Fund plays a key role for governments in the country that would help the implementation of state policies correctly and better performance.
- The countries often choose a variety of funds, and each Fund's investment options usually focus on only a few specific areas, the portfolio may be too diverse to make capital investments diluted and reduce efficiency the investment. For example, in Brazil's FunBio fund, priority projects are related to conservation activities. FMCN in Mexico focused fund grants for programmes located in objectives of ecosystems and species, sustainable use of natural resources's as well as institutional mechanism's capacity.

- The Fund should have a vision and management structure in accordance with local conditions, making possible for the long-term goal in case of changing political conditions, and also need to ensure the long-term revenue of the Fund. Some funds in Mexico, Peru and Uganda have been successful in promoting the government agencies in exploring a wide range of opinions from population groups with interests in the management of protected areas. Since then the fund have an effective mechanism, transparency to transfer funds to the sector.
- The Fund with a diversity of management are often more effective in operation, restricted in the Composition of the Council with various components which help reduce pressure on the members, while expanding scope of the project area are welcomed. However, there should be closer links between the members of the Council.
- However, funds are not always able to have experienced members in all areas, with the ability to manage and operate the Fund effective. The fund should raise the importance of training and improve knowledge to access to information resources. At the seminar held in Mexico on May 12, 1997 on strengthening the Environment Fund in Latin America and the Caribbean, participants determine the importance of improving the function of the Fund's Management Council and compliance to their tasks. A variety of programmes have been implemented to train the management of the Fund, as well as Council members to perform their duties more effectively.
- The ability to survive and long-term effectiveness of the environmental protection funds obviously depend heavily on capital preservation strategies as well as stable income, sufficient for the operation of the Fund. To do this well, the fund need to focus on two aspects: increasing the efficiency of investment by reducing risk and increasing revenue. The policy priorities are:
 1. The development of investment policy;
 2. The procedures for selection, monitoring and evaluation of asset;
 3. Development of environmental standards and social investment;
 4. Improved performance while minimizing risk;
 5. Consideration of other sources of support from local and foreign entities.

Where necessary, the fund may consult experts or consultants as experienced investors.

Increased awareness of environmental issues is one of the main benefits of the Environmental Trust Fund. Donors promote the use of financial funds in green development, for example, given the requirements and the commitment of the Government's reform policies. Environmental Trust Funds take up environmental taxes, establish the institutional framework of environmental policies and increase awareness of enterprises on environmental costs.

Environment Fund typically associated with array "green" (understood in the sense of nature and biodiversity conservation) rather than "brown" (pollution reduction). Use of general fund for the environment is considered reasonable when the benefits are not allocated to the private sector business or public finance. Most of the spending on "green" environment in this group often benefit from global community. In contrast, pollution is a negative externality and resolved most effectively by forcing all polluters bear the social cost of pollution. Using the general fund to support pollution reduction measures should be temporary, with the aim of promoting environmental improvement and adjust behaviour to changing environmental regulations.

Due to differences in the nature of the fund groups, they are not easily combined. For donors, for example, Environmental Trust Funds are not considered most appropriate channel for their financing. The World Bank decided to invest in the new DCFs in some countries (e.g. China and Russia) despite the existence of Environmental Trust Funds. There are several reasons for this mismatch, including the theoretical basis of using tax revenues for commercial loans, lack of expertise in financial and banking in Environmental Trust Funds; Environmental Trust Funds' defined mandate is too broad, lacks transparency and the explanation of the operation, and they are not ready to meet the requirements of donors.

Fund through the Environmental Trust Fund is only effective when environmental problems are solved simultaneously with current policies. Most environmental problems are the result of market and policy failures such as subsidies for energy and fertilizers, natural resources are not being evaluated, the ownership is not specified, unsuccessfulness of law on environment and the internationalization of the environmental disaster's social costs. Without implementation of policy measures, the establishment of the Environmental Trust Fund is not adequately to address environmental issues.

If law enforcement on the environment is not strengthened, the Environmental Trust Fund will give a wrong message and create distortion. Subsidies to overcome environmental problems and provide the public environment service can cause or take back the environmental disaster, leading to delayed environmental improvement as the goal of supporting and funding planned. The approach "carrot-and-stick" is to ensure the positive role of the Environmental Trust Fund to strengthen policies, laws and enforcement. Environmental Fund is a sustainable and more effective solution in solving environmental problems if the environmental projects are to strengthen the financial capacity and resolve the cause of financial difficulties. Thus the Fund should focus on environmental mitigation of these problems as lack of information on how to achieve environmental improvements, limited access to finance and lack of capital recovery.

Without a spending policy, clear responsibilities and the project selection criteria based on cost-effective solutions for environmental priorities, the allocation of financial resources will be wasted and not effective. Therefore, the Environmental Trust Fund should be linked to policymakers to develop and ensure priorities in spending.

Transparency and accountability in the operation of the Global Environment Facility is essential to avoid the influence of unforeseen political and management which

is not good for the general fund. The mechanism of participation of key stakeholders in the decision of the Environmental Trust Fund will not only affect the transparency of the Fund's activities, but also helps build the ability to identify and implement local environmental projects. Building capacity is particularly emphasized in the operation of the Green Fund.

3 VIETNAM ENVIRONMENTAL PROTECTION FUND

3.1 Overview

For the purpose of promoting environmental protection, Vietnam Environmental Protection Fund was established with the purpose to raise capital from organisations and individuals inside and outside the country, to receive the funds invested by the State to support programmes, projects, activities and tasks in environmental protection on a national scale. Economic growth has been set out to link production with environmental protection which is a critical requirement for businesses. However, it is not denied that investment, technological innovation, and production with environmental protection measures do not need a small capital. Therefore, what businesses are most concerned about is how to achieve financing with reasonable interest rate to make these solutions. The capital of Vietnam Environmental Protection Fund is one of such funds. Therefore, on February 26, 2002 the Prime Minister issued Decision No. 82/2002/QĐ-TTg to establish the Vietnam Environmental Protection Fund (VEPF) under the Ministry of Science, Technology and Environment with a charter capital of 200 billion VND.

The Vietnam Environmental Protection Fund was established to assist investors and related agencies to implement environmental protection projects in Vietnam. VEPF Fund has become a trusted entity, a useful source of capital for investment in environmental protection in Vietnam. Investment in environmental protection will not only bring the benefits of the brand, but also be able to bring financial benefits to businesses.

3.1.1 Legal basis on organisational structure and operation of VEPF

During the past, to create a legal basis for the organisation and operation of Vietnam Environmental Protection Fund, the competent authorities have issued a large number of administrative documents and legal documents.

Table 3. Legal documents on organisational structure and operation of Vietnam Environmental Protection Fund

No	Documents No.	Issue date	Authority	Contents
1	Decision No. 82/2002/QD-TTg	26/06/2002	Government	On the establishment, organisation and operation of Vietnam Environmental Protection Fund
2	Circular No. 93/2003/TT-BTC	06/10/2003	Ministry of Finance	Guiding the implementation of financial management regime for Vietnam Environmental Protection Fund
3	Decision 13/2003/QD-HDQL	22/09/2003	Fund Management Board	Promulgating the Regulation on organisation and activities of professional regulatory agencies Vietnam Environmental Protection Fund
4	Decision 24/QD-HDQL	12/01/2004	Fund Management Board	Promulgating the Regulation on lending with preferential interest rates, loan interest rate support, sponsor and co-financing of the Vietnam Environmental Protection Fund
5	Decree No. 174/2007/ND-CP	29/11/2007	Government	Regarding environmental protection charge for solid waste
6	Decision No. 130/2007/QD-TTg	02/08/2007	Government	On a number of mechanisms and fiscal policies for investment projects under the clean development mechanism
7	Decision No. 35/2008 / QD-TTg	03/03/2008	Government	On the organisation and operation of Vietnam Environmental Protection Fund (replaces Decision No. 82)
8	Decision 2031/QD-BTNMT	13/10/2008	MONRE	Promulgating the Regulation on organisation and operation of Vietnam Environmental Protection Fund
9	Decision No. 71/2008/QD-TTg	29/05/2008	Government	On the margin improvement and environmental restoration for mining activities
10	Decision 07/QD-HDQL	14/09/2009	Fund Management Board	Promulgating the Working Regulation of the Council of Vietnam Environmental Protection Fund Management
11	Decision 08/QD-HDQL	23/10/2009	Fund Management Board	Promulgating regulations to control the activities of the Vietnam Environmental Protection Fund
12	Decision 169/QD-QBVMT	29/12/2009	Environmental Protection Fund	Promulgating the Working Regulation of the Vietnam Environmental Protection Fund

3.1.2 Functions and mandates of the VEPF

Functions, duties and powers of the VEPF are described in the Decision No. 35/2008/QĐ-TTg on March 3, 2008 by the Prime Minister. Accordingly, Vietnam Environmental Protection Fund has the functions, duties and powers as follows:

In functional terms:

To receive funds from the state budget, funding, contributions, trustee of the organisations and individuals inside and outside the country to provide financial support for environmental protection activities on a national scale.

Tasks:

1. To receive the funds accordingly to the operating capital for Vietnam Environmental Protection Fund.

2. Financial support for programmes, projects, activities on nature conservation and biodiversity, pollution prevention, environmental degradation and other environmental issues at national, sectoral, regional levels or solving local environmental problems that have great impacts under the following forms:

a) Loans with preferential interest rates;

b) The interest rate support loans, guaranteed loans for environmental projects, loans from credit institutions as prescribed by law;

c) Donation of funds for building and deploying the project of raising capital to fund the implementation of tasks and activities to overcome environmental pollution, consequences of incidents, environmental disaster; programmes, plans and projects decided by the Prime Minister; the organisation of environmental awards, other forms of reward to honour organisations and individuals with advanced models under the Decision of the Minister of Natural Resources and Environment; nature conservation projects, environmental protection tasks defined in the Charter on organisation and operation of the Fund.

3. Co-financing, loans to environmental projects in accordance with criteria and functions of the Fund with national and international financial institutions, Global Environmental Fund (GEF), the Fund's external environment, the local environmental protection funds to serve environmental protection activities as prescribed by law.

4. To organize the evaluation and approval processes, develop financial support for projects and tasks for environmental protection with funded investment from the VEPF under the Articles of organisation and operation of Vietnam Environmental Protection Fund.

5. Use idle capital which is not originated from the state budget and the consent of organisations and individuals to provide funds to buy government bonds as prescribed by law.

6. To organize the registration, monitoring and management of certificates of certified emission reductions of greenhouse gas emission (CERs) to organize a registration receipt, distribution and sale of CERs to the first owner to receive CERs or CER; CERs sale fees to cover the costs of fee collection to support the dissemination activities and communication on the Clean Development Mechanism (CDM) development, appraisal, approval documents CDM projects, managing and supervising the implementation of CDM projects and other purposes related to the CDM under the provisions of law, implemented subsidies for CDM projects.

7. Develop collateral environmental restoration in mineral exploitation with other organisations and individuals permitted for mining activities.

8. Develop financial coordination, management programmes and the key environmental protection projects as assigned by the Minister of Natural Resources and Environment and the decision of the competent authority.

9. Perform other duties assigned by the Minister of Natural Resources and Environment.

3.1.3 Organisation of Vietnam Environmental Protection Fund

The Vietnam Environmental Protection Fund is an independent accounting unit, operating not for profit but to preserve capital and cover administrative costs. The Fund is exempt from taxes and other remittances to the State budget as prescribed by law for environmental protection activities.

According to the rules of the fund as stipulated in the Decision No. 2031/QĐ-BTNMT dated October 13, 2008 of the Minister of Natural Resources and Environment promulgating the Charter on organisation and operation of Vietnam Environmental Protection Fund, the organisational structure of Vietnam Environmental Protection Fund including Fund Management Board, Supervisory Board and professional executive agency.

a. Fund Management Council includes:

Fund Management Council has a Chairman and six (06) members. Chairman of the Asset Management is a Deputy Minister of Natural Resources and Environment and its members are leaders of Department agencies: the Ministry of Natural Resources and Environment, Ministry of Finance, Ministry of Planning and Investment and the State Bank under the decision of the Minister of Natural Resources and Environment.

The organisational structure and regulations of the Fund Management Council are specified in the Decision No.07/QĐ-HDQL on September 14, 2009 on the Regulation of the work of the VEPP's Fund Management Council.

b. Supervisory Board:

Supervisory Board was established to assist Fund Management Council's supervision and inspection activities of the Fund to ensure proper implementation under the provisions of law and state regulation of fund managers to perform their functions and duties accordingly to the Charter on organisation and operation of the Fund under the direct leadership of the Fund's Management Council.

The organisational structure and regulations of the Supervisory Board are specified in the Decision No.08/QĐ-HĐQL dated October 23, 2009 issued by the Fund Management on the operation of the Supervisory Board of the Vietnam Environmental Protection Fund.

Supervisory Board's activities include a maximum of 05 (five) full charge members. Supervisory Board members are professionals who are knowledgeable on financial sector, credit, investment and environmental protection, environmental law and with not less than 5 years experience in major financial and banking sectors; no conviction and charges related to economic activities prescribed by law.

Duties and powers of the Supervisory Board are specified in Clause 2, Article 25, Charter of the organisation and operation of Vietnam Environmental Protection Fund issued together with Decision No. 2031/QĐ-BTNMT date of October 13, 2008 by the Minister of Natural Resources and Environment.

c. Executive agency:

Executive agency's operations include the director, a deputy director, chief accountant and other divisions, professional representative office under the Fund.

- Director of the Fund shall be appointed by the Minister of Natural Resources and Environment or dismissed on the basis of proposals of the Chairman of the Fund Management Council;
- Deputy Director and Chief Accountant are appointed as the proposal by the Chairman of the Fund Management Council and shall be appointed or dismissed by the Minister of Natural Resources and Environment;
- Organisational structure, functions and duties of the divisions are decided by the Director after obtaining approval from the Chairman of the Fund Management Council;

Executive agency of the Fund is to work on a full charge.

Organisational structure of Vietnam Environmental Protection Fund is as follows:

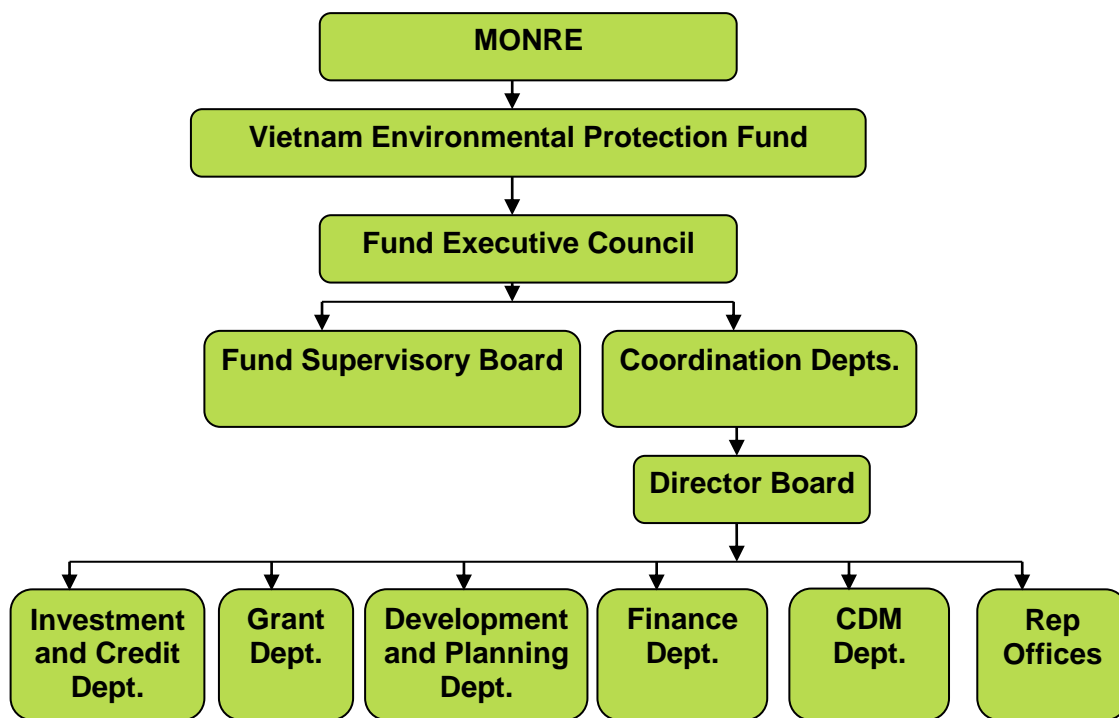


Figure 5. Organisational Structure of the Vietnam Environmental Protection Fund

3.1.4 Financial resources for the Vietnam Environmental Protection Fund

According to the Decision No. 2031/QĐ-BTNMT on October 13, 2008 of the Minister of Natural Resources and Environment promulgating the Charter on organisation and operation of Vietnam Environmental Protection Fund, the VEPF's operating fund is from three sources: fund capital, which additional allocation from the state budget and operating capital supplemented annually from other sources.

The charter capital of Vietnam Environmental Protection Fund is 500 billion VND from the state budget.

The change of the charter capital of Vietnam Environmental Protection Fund is by the Prime Minister's decision on the proposal of the Minister of Natural Resources and Environment and the Minister of Finance.

Additional allocations from the state budget:

Every year, the state budget provides additional funding for environmental protection to cover funding for projects and tasks to ensure environmental protection activities to maintain regular level of 500 billion VND.

The working capital supplemented annually from other sources:

In addition to capital and resources from state budget and additional annual expenditures for environmental protection, Vietnam Environmental Protection Fund may receive additional funding, include:

- Environmental protection fees for waste water, air pollutants, solid waste, mining and environmental protection fees as prescribed by law;
- The amount of compensation for environmental damages from organisations and individuals to pay into the state budget as prescribed by law;
- Penalties for administrative violations in the field of environmental protection under the law;
- The fee for selling CERs;
- Financial assistance, support, contributions and investment trusts of organisations and individuals inside and outside the country;
- The additional funds as prescribed by law.

The receipt of additional annual funding is done under the guidance of the Ministry of Finance.

3.1.5 Targets for financial support from the Fund

Targets for financial support from the Vietnam Environmental Protection Fund are organisations or individual who have investment projects or plans proposed for funding the implementation of activities for environmental protection, nature conservation and biodiversity, pollution prevention, environmental degradation and environmental issues at national, sectoral, regional level or solve local environmental problems that have a large impacts (after referred to as the investment project).

Fund Management Council decides priorities and criteria for selection of investment projects financing in each period.

Targets for financial support need to meet the conditions for each mode of financing provisions.

3.1.6 Areas of financial support from the Fund

The Vietnam Environmental Protection Fund focuses financial support on following five areas:

- Waste;
- Prevention and remediation of environmental problems, the consequences of the incident which caused environmental disaster;
- Research and development of environmentally friendly technologies;
- Nature conservation and biodiversity; and
- Education, environmental communication and sustainable development.

3.1.7 Operation of the Fund

Forms of financial support

1. Loans with preferential interest rates

Targets for loans with preferential interest rates mean organisations or individuals (hereinafter referred to as investors) who have the programmes, projects, activities and tasks of environmental protection (hereinafter referred to as projects) at national, sectoral, regional levels or solve local environmental problems that have large impacts in the fields of pollution prevention, environmental degradation and environmental problems.

Annually, the Fund Management Council decides the priority list and selection criteria for the loan.

Principles of lending: Vietnam Environmental Protection Fund's loan principles and interest repayment. The borrower must meet the following requirements:

- Use capital with purposes as agreed in the credit contract;
- Ability to finance and reimburse in full and timely.

Loan Conditions:

- Eligible for loans at preferential interest rates as mentioned above (Decision No. 24/QĐ-HĐQL dated January 12, 2004 issuing the Regulation on lending with preferential interest rates, loan interest support, co-sponsored and funded by the Vietnam Environmental Protection Fund);
- Civil legal capacity, civil act capacity and bear civil liability according to law;
- The project's investors have completed the procedures for investment and construction in accordance with the law on investment and construction management;
- Loan files are evaluated and accepted by the Fund;
- Ability to financial solvency within commitments listed in records for loan;
- Ensure to join reciprocal capital investment schedule specified in the loan file request;
- Implementing the provisions on loan security of the Fund.

Magnitude of the loan for a project shall not exceed 70% of the total investment of the project. Fund Management Council determines the loan for each group and delegates decision authority of the Director of the Fund from time to time.

Loan term is determined on the basis of the recoverability of capital, consistent with production and business characteristics and ability to repay, but not exceeding 5 years. In the case of term loans over 5 years, the Fund Management Council considers and decides in each particular case but not exceeding 7 years.

Interest rate is decided by the Fund Management Council's regulations for each group of targets in each period. The maximum interest rate is not to exceed 50% interest rate for commercial loans. Fund Management Council identifies the preferential interest rates on the basis of interest rate cap announced by the Ministry of Finance.

For the investor loans which must use the property under their ownership to secure loans in the form of collateral or third party guarantee, in special cases, the loans are not secured by the property fund management by the Council for consideration and decision. Pending the full repayment, the investor or guarantor loans may not be transferred, sold or mortgaged using property mortgage guaranteed for loans elsewhere. The order and procedures for securing loans are made under the provisions of law on secured loans and provisions of the Fund.

Before the Fund decides to support lending at preferential interest rates, investors must submit applications to the Fund's interest rate support. Dossiers of application for financial assistance include:

Investors' documents:

1. Application for loans.
2. Project investment loans approved for environmental protection.

The attached documents:

The papers of legal documents

1. Establishment decision (if any)
2. Charter operations (if any)
3. Business registration certificate or investment license (for enterprises with foreign investment)
4. Decision on the appointment and a copy of identity card of the representative (legal)
5. The financial records
6. The financial statements of 03 years (if any). For projects with a total loan of 5 billion or more will be required to provide audited financial statements.
7. Production and business plan of the Investor (corresponding to the time the loan)
8. The record to secure loans
9. 3rd party guarantee: The mail 3rd party guarantee for loan projects
10. The Mortgage: A document of ownership, detailed description of the property...
11. For real estate: certificate of ownership and land use right.

The appraisal process for project loans includes the steps as follows:

Step 1: Assignment of evaluation

Step 2: Verification

Evaluation time (from receipt of complete application till the approval decision): Director of the Fund's approval (50 days), Chairman of projects under the Fund Management Council's approval (70 days); in cases of the special assessment required, evaluation period may last longer than the standard time and the borrower will be notified.

Validation:

- Prepare preliminary evaluation reports and recommendations to handle dossiers.
- Evaluation: After a preliminary evaluation of projects eligible for consideration for loans, credit officers propose to evaluate.
- Prepare appraisal reports.

Step 3: The evaluation report (05 days)

Step 4: Approval and lending decisions (20 days)

Support interest rates

Target of interest rate support: Organisations and individuals that have investment projects indicated in the list of regulations (Decision No. 24/QĐ-HĐQL dated January 12, 2004 issuing the Regulation on lending with preferential interest rates, loan interest rate support, sponsor and co-financing of the Vietnam Environmental Protection Fund). The credit institutions shall be considered loan interest rate support from the Vietnam Environmental Protection Fund.

The allocation of funding to support interest rate is conducted once a year on the basis of principal and interest investors in which the investor has to pay for credit institutions (not including overdue debts).

Conditions for the interest rate support: For interest rates support, investors propose projects with interest rate support to ensure the following conditions:

- Project management bodies of state environmental certification project is made effective for environmental protection tasks or to solve environmental problems;
- The project was completed and under operation, the loan has been refunded;
- The project that has not been approved with preferential interest rates or capital financing activities of the Fund and certified by the competent authorities;

- The Fund accepted after evaluation of dossiers of interest rate support and provides contracts with interest rate support.

The level of interest rate support is the Fund Management Council's decision. The determination of interest rate support loans is based on the total amount borrowed by investors from other credit institutions for investment and lending rates at the time but not exceeding 50% loan interest rate cap announced by the Ministry of Finance at the time of signing the contract.

Support levels for contract loan with interest rate support are based on the annual interest rate support planning.

The Fund Management Council decides the list of projects, total interest rate support loans and the annual interest rate support. Fund directors decide to support the interest rate within the decentralized authority; under the decision of the Director of the Fund and the President of the Fund Management Council decision.

Sponsor and co-financing

The Vietnam Environmental Protection Fund provides funds and co-financing to organisations and individuals who have the programmes and projects on environmental protection activities as follows:

- Dissemination and education to raise public awareness on environmental protection;
- Develop and implement the project of raising capital to fund the implementation of tasks and processing activities to overcome environmental pollution, consequences of incidents and environmental disasters;
- Programmes, plans and projects decided by the Prime Minister;
- Establish environmental awards, form of reward to honour organisations and individuals on environmental protection with the Decision of the Minister of MONRE;
- The investment project activities on environmental protection are under the provisions of the Charter on organisation and operation of Vietnam Environmental Protection Fund (issued together with Decision No. 2031/QĐ-BTNMT dated October 13, 2008 of the Minister of Natural Resources and Environment).

The Vietnam Environmental Protection Fund coordinates with national and international organisations and individuals to co-finance programmes and projects on environmental protection activities specified above.

Conditions for the programmes, projects and environmental activities for fund and co-financing are as follows:

- Programmes, projects and activities on environmental protection under the state management and environmental protection certification subject to the above provisions;
- For investment projects on environmental protection, the investor must have a counterpart fund of at least 50% of the total investment cost to implement such projects;
- Profile for funding or co-finance approved and signed.

Authority to finance is under the Fund Management Council's decision and the Fund's annual financial support. Authority of the Director of the Fund is approved by the Fund Management Council decision.

Deposit for environmental remediation in mineral exploitation

This is for the purpose of ensuring the financial resources to renovate and restore the environment after mining activities by organisations and individuals mining in compliance to the law. The amount is at least equal the actual cost to renovate and restore the environment after mining activities.

The target for deposit:

- Organisations and individuals permitted for mining activities must be made deposit to rehabilitate or restore the environment at the Environmental Protection Fund prior to mining.
- Organisations and individuals with active mining activities, but have not deposited fund for environmental improvement, collateral is to proceed as follows:
 - ✓ For organisations and individuals operating in mining activities who have made environmental impact assessment but not activities for environmental improvement and restoration, the project must fulfil requirement for improvement and environmental restoration with the competent authorities for evaluation and approval;
 - ✓ For organisations and individuals operating in mining activities that have made a written commitment for environmental protection but not activities for environmental improvement and restoration, the project must fulfil requirement for improvement and environmental restoration with the competent authorities for evaluation and approval.

Organisations and individuals with investment projects for construction who are authorized to permit mining activities by the state agency in the area are not required to make deposit for environmental improvement and restoration.

The deposit method

- In the case the mining period permitted is different from the time anticipated in the investment report and environmental impact assessment, the amount of deposit is the total cost of renovation and restoration environment under the time factor T. It is calculated by time period under the mining permit / time anticipated in the investment report and environmental impact assessment.
- For a term of exploitation of the mining permit under 3 (three) years to make one deposit. The level of deposit is 100% (one hundred percent) of the estimates of the total cost of environmental restoration; the renovation projects need to be evaluated and approved by the competent authorities.
- In the case of mining licenses with a period of more than three years, the projects shall be allowed to deposit more than once. The first deposit is defined as follows:
 - ✓ For projects with a term of exploitation of the mining permit issued under 10 years, the initial deposit is 25% (twenty five percent) of the amount to be deposited;
 - ✓ For projects with a term of exploitation of the mining permit granted for 10 years and under 20 years, the initial margin is 20% (twenty percent) of the amount to be deposited;
 - ✓ For projects with a term of exploitation of the mining permit granted for 20 years or more, the initial margin is 15% (fifteen percent) of the amount to be deposited.

Subsequent deposits are made annually, minus the initial deposit, and divided equally during the remaining years of the term of the mining permit granted.

- If deposits are made several times, organisations and individuals may select a collateral deposit of the full amount for the entire duration of mining under the mining permit granted.
- For cases of extension operators, organisations and individuals to set up mining projects to rehabilitate or restore the environment, additional deposits may be extended.

3. Registration, monitoring, management and selling fees / transfer CERs in Vietnam and financial mechanisms to support CDM project development

Vietnam Environmental Protection Fund shall:

- To organize the registration, monitoring and management of CERs certificates;
- To subscribe, distribute and sell / transfer CERs or act as focal point to receive CERs;
- To collect fees of CERs transfer to sell CERs to foreign countries.

Charge rates are calculated as the ratio% of the total market value of the number of CERs traded at the time of the transaction.

Fee earned from the sale of CERs or CERs transfer to foreign countries is used to:

- Financial support for dissemination activities and communication on the Clean Development Mechanism (CDM);
- Preparation, construction, evaluation and approval of investment projects under the Clean Development Mechanism (CDM);
- Manage and supervise the implementation of CDM projects and other purposes related to the CDM;
- Support for the products of CDM projects;

The level of fees and CERs transfer to sell CERs to foreign countries and the management of CERs fees are implemented under the guidance of the Ministry of Finance.

The subsidies for products of CDM projects (condition, level of subsidy and subsidy period) shall comply with the guidance of the Ministry of Finance and Ministry of Natural Resources and Environment.

4. Trust and entrustment

Trust:

- The Fund may entrust credit institutions, financial institutions to make loans and recover debts under entrustment contracts;
- The entrusted organisations shall enjoy the entrustment service charges. Service fee of entrustment is agreed by the parties and specified in the contract of entrustment.

Entrustment:

- The Fund is entrusted loans, debt recovery and financial support of organisations and individuals inside and outside the country under the entrusted contract;
- The Fund shall enjoy the entrustment service charges. Entrustment service fee is agreed by the parties and specified in the entrusted contract.

5. Government Bonds

It is allowed to use idle capital not originating from the state budget to buy government bonds as prescribed by law, on the basis of consent of organisations and individuals that provide capital. Total capital to buy government bonds shall not exceed 50% of idle capital.

6. Participation in programmes and projects as decided by the competent authorities

The Vietnam Environmental Protection Fund is to mobilize resources needed to participate in coordination and financial management of key environmental protection projects and programmes as assigned by the Minister of Natural Resources and Environment and the decision of the competent authority. In addition, the Fund also performs other duties as assigned by the Minister of Natural Resources and Environment.

Managing Director directs the implementation of programmes, projects and other duties as assigned by MONRE and the decision of the competent authority.

7. National and international Cooperation among organisations and individuals

The Vietnam Environmental Protection Fund's relations with other organisations and individuals inside and outside the country to call for, attract and receive donations or raise additional capital to the Fund. In addition, the Fund is working with financial institutions at home and abroad, the Global Environment Fund (GEF), the environmental funds, the local environmental protection fund to implement the co-financing, loans for environmental protection activities as prescribed.

Fund directors decide to cooperate, receive funding or additional funding from other organisations and individuals in the country. The cooperation and funding or additional funding from other foreign organisations and individuals is made under decision by the Director after reporting to and approval of the Fund Management Council.

3.2 Results of the Vietnam Environmental Protection Fund

From 2003 to present, the Fund's activities mainly focused on the primary services including loans with preferential interest rates, financing, project support and CDM activities and perform the tasks assigned by MONRE and other authorities. Since 2011 the Fund began to develop field activities in interest rate support investments.

On the operating capital of the Fund:

Capital: According to the Decision No. 82/2002/QĐ-TTg on June 26, 2002 of the Prime Minister, the charter capital of Vietnam Environmental Protection Fund is 200 billion, provided in full by the state budget in 2004. After five years of operation, to meet the practical requirements of environmental protection works, the Prime Minister issued the Decision No. 35/2008/QĐ-TTg dated March 03, 2008 with additional charter capital of the Fund. In February 2009, Ministry of Finance provided additional 100 billion and 200 billion in 2010, raising the fund's charter capital to 500 billion VND.

Annual funds: in 2010, the Fund has added nearly 382.8 billion in operating capital. In particular, the additional funds from the environmental protection charges for waste water charges, air pollutant charges, solid waste, mining and environmental protection fees as prescribed by law received from 2008 to May 5, 2010 is 240.24 billion while revenues from CERs fee is 33.53 billion.

In the context of country economic development, environmental protection business has not received sufficient attention from society, but during the relatively short operation of the Vietnam Environmental Protection Fund, with the close guidance of the Party, the line ministries, the Fund has achieved certain results and plays an important role in the environmental protection works for the country.

3.2.1 Preferential interest loans

Since its establishment, the form of loans with preferential interest rates is an important task of the Vietnam Environmental Protection Fund. The result of providing loans with preferential interest rates from 2004 to 2010 is as follows:

Table 4. Results of the loans from Vietnam Environmental Protection Fund during the period 2004-2010

	2004	2005	2006	2007	2008	2009	2010
Number of projects	02	04	09	10	32	36	20
Total funds (bil. VND)	4.9	15.8	28.1	42.2	80.3	172	220

Source: VEPF (<http://vepf.vn/>)

The above table shows the total number of projects and total amount of loans over the years from 2004 - 2010 increased rapidly, from 02 to 20 projects respectively and from 4.9 to 220 billion in total loan amount. In the period of 2007 - 2010, the number of environmental projects assessed and approved for the loan also increased with loan amounts also increased:

- In 2008, the loan amount is 80.3 billion, increased 90.3% compared to 2007.
- In 2009, the loan amount is 172 billion, increased 115% compared to 2008.
- In 2010, the loan amount is 220 billion, increased 28% compared to 2009.

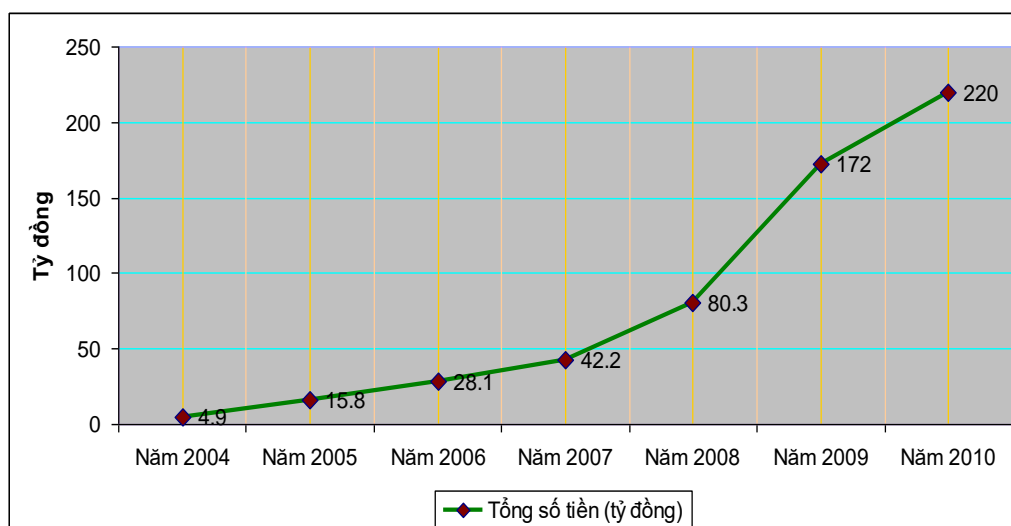


Figure 6. Results of the loans from VEPF during the period 2004-2010

Source: VEPF (<http://vepf.vn/>)

To receive financial assistance from the Fund, the borrower should ensure property mortgage loan or guarantee from commercial banks as stipulated in the Decision No. 24/QĐ-HĐQL dated January 12, 2004 promulgating the regulation on lending with preferential interest rates, interest rate support, Sponsor and co-financing of the Vietnam Environmental Protection Fund.

Also under the regulations, the Fund Management Council will determine the loan rate for each group of loans and in each period, namely: from 2004 to March 01, 2009 the lending rate was 5.4% / year, from May 6, 2009 to December 2009 the lending rate was 3.6% / year and from December 01, 2010 to present the lending rate was 5.4% / year. Magnitude of lending amount to a project shall not exceed 70% of the total investment of the environmental protection projects.

The project loans from the Fund are under 9 priority areas (as per the Decision 04/QĐ-HĐQL dated on August 31, 2009 of the Fund Management Council on the issuance of priorities, selection criteria of the environmental protection projects to receive financial support from the Vietnam Environmental Protection Fund). For each environmental protection project, the most popular level of the loan is ranging from 70-10 billion VND, the highest and lowest are 25 billion and 300 million respectively.

From the time the first project loan was approved in August 2004 to October 2011, the Vietnam Environmental Protection Fund has funded 129 environmental projects in 33 provinces / cities across the country with the total amount of loans of 741 billion (~ USD 40 million) with preferential interest rates for industrial waste disposal in various industrial zones, pollution treatment of the facilities causing serious environmental pollution under the Decision No. 64/2003/QĐ-TTg dated April 22, 2003 of the Prime Minister, the waste water treatment plants, villages' pollution treatment, waste treatment and handling of cement dust and other particulate matters, implementation of clean

technologies, environmentally friendly technologies, energy saving, environmental protection for product manufacturing processes and solid waste collection in societies.

Table 5. Loans with preferential interests up to October 2010

No.	Areas	Fund (bil. VND)	~ mil. USD	Ratio (%)	No. projects
1	Industrial waste disposal in various industrial zones	381,040	20.57	51.40	32
2	Pollution treatment of the facilities causing serious environmental pollution under the Decision No. 64/2003/QĐ-TTg	43,194	2.33	5.83	13
3	Wastewater treatment plants	89,753	4.84	12.11	13
4	Villages' pollution treatment	15,637	0.84	2.11	32
5	Waste treatment activities	73,490	3.97	9.91	4
6	Handling of cement dust and other particulate matters	6,000	0.32	0.81	2
7	Deployment of clean technologies, environmentally friendly technologies, energy savings (energy efficiency)	39,499	2.13	5.33	19
8	Environmental protection for products manufacturing processes	71,800	3.87	9.69	5
9	Solid waste collection in societies	20,915	1.13	2.82	9
	Total	741,390	40.00	100.00	129

Source: Proceedings of the workshops on environmental protection and sustainable development, Phú Quốc, 2011.

The loan projects in the field of industrial waste disposal of the industrial parks have accounts for the largest proportion of the total loan by the Vietnam Environmental Protection Fund. As of December 10, 2011, number of projects in this area are 32 projects with a total loan amount of 381,04 billion (approximately USD 20.57 million), accounted for 51.40% of total loans provided by the Vietnam Environmental Protection Fund.

The projects on sewage system and waste treatment in the factories, disposal of industrial waste and environmental protection in production manufacturing processes and other environmental protection measures in the industry are classified as projects on the disposal of industrial wastes of the industrial zones. Specifically, the total loan projects for wastewater treatment plants in the factories were 89.753 billion (increased 12.11%), projects on the disposal of municipal waste was 73.49 billion (increased 9.91%) and environmental protection products was 71.8 billion VND (increased 9.69%).

The project on handling contamination and environmental issues in villages has a total number of projects of 32/129, however the total loan amount of the projects under

this area represents only a small percentage of the total loan capital of the Fund (15.637 billion, accounting for 2.11%)

The project on handling of cement dust has the least number of projects, there were only 02 projects with the total loans of 6 billion, accounting for 0.81% of the total Fund's loan.

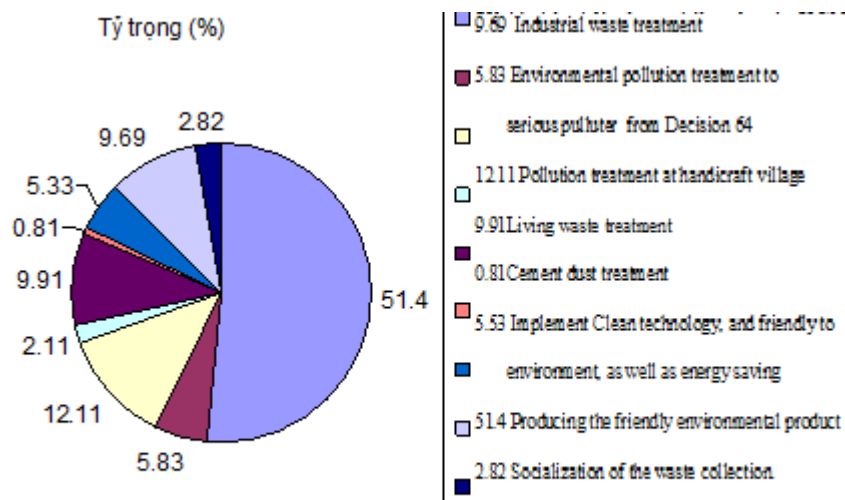


Figure 7. Distribution of funds per priority areas

In terms of loan and credit cycle performance, in addition to conducting the evaluation of project loans, which a number of funds have implemented effectively, such as conducting timely disbursement, collection of principal and interest commitments. As of December 6, 2011 the Fund has disbursed 401.71 billion; debt principal was recovered with 100.74 billion VND from loan interest which earned 25.85 billion, the unpaid debt is 0.49 billion and no bad debts.

It can be said the loans from the Fund have met a demand for investment capital in the field of environmental protection, contributing to the timely execution of the task of environmental protection such as the urgency to improve the environment of the river basin, waste treatment, industry and climate change... At the current time, the Fund loans have been present in 33 provinces / cities across the country, including remote provinces such as Cao Bang and Ca Mau. Most of the business units the Fund has funded are seen as an effective way, typically the preferential loan projects which promote the efficient production facilities in 26 ceramic villages in Bat Trang (Hanoi), Luu Xa cement Factory (Thai Nguyen)...

Planning credit business for the Vietnam Environmental Protection Fund in the period 2011-2015 will focus on providing loans at preferential interest rates for projects in priority areas, including wastewater treatment, industrial waste which will be the

highest priority. Accordingly, the objective of the Fund in 2015 for outstanding loans will reach 3,000 billion VND (equivalent to USD 148 million).

3.2.2 Fund and co-financing

In recent years, the Vietnam Environmental Protection Fund has conducted many projects for environmental protection works. The donation is used for highly proper purposes, contributing timely support for the urgent activities and tasks and unexpected environmental protection works.

The Vietnam Environmental Protection Fund has adopted the maximum level of funding by 50% of the total project cost, environmental protection tasks and financing conditions are applied in accordance with the Fund Management Council.

In 2007, the Vietnam Environmental Protection Fund has supported 2.5 billion for the Departments of Natural Resources and Environment in the flood-affected provinces for their environmental protection and remediation, drinking water supply for residents and 500 million for the oil pollution treatment and oil spill incidents in the two provinces of Ha Tinh and Quang Binh.

In 2008, the Foundation has conducted 7.54 billion funding for the 31 tasks to overcome environmental problems, natural disasters, floods, advocacy awareness raising, successfully organized the East Asia Ministerial Environment Conference and the Decision by the Prime Minister on environmental protection in Dong Nai river basin...

In 2010, the Foundation has funded more than 6.1 billion for 14 projects and tasks, in which funding for environmental projects is the fifth project, the rest is to deal with environmental problems in the aftermath of storms and floods in Central and South Central. Up to October 18, 2010, the Fund has funded 2.1 billion for some provinces from Ha Tinh to Thua Thien Hue to support flood victims to overcome the problem of environmental pollution: Quang Binh (1 billion), Ha Tinh province (0.5 billion), Quang Tri (0.4 billion), Thua Thien Hue province (0.2 billion).

In addition, the Fund also coordinates with other financial institutions at home and abroad, the Global Environmental Fund (GEP), the industry environment fund, the provincial environmental protection funds and so on to support co-financing for the projects and tasks in environmental protection. In 2010, in collaboration with the Czech Republic, the Foundation has collaborated with the Czech embassy in Vietnam, World Development Organisation and the Czech Republic Environmental Protection Fund to sponsor four households in Bat Trang commune for their development of gas-powered ceramic drying chamber to save energy and support environmental protection in the local area with a total fund of 392 million.

From the time the first financing to January 10, 2011, the Fund has funded nearly 29 billion VND (equivalent to 1.5 million USD) for 109 projects and tasks in the field of environmental protection in 39 provinces and cities. Financing activities of the Fund include: handling environmental pollution caused by natural disasters, floods,

environmental protection projects, propaganda and awareness rising on environmental protection....

Therefore, until the present time, local governments and entities receiving funds have shown their appreciation to the timeliness of activities financed from the Fund and for the favourable conditions to implement urgent environmental protection tasks.

To promote the achievements and plans for financing of the Vietnam Environmental Protection Fund in the period 2011 – 2015, the following activities will be implemented:

- continue funding in the priority areas as directed by MONRE;
- focus on the media programmes, community education on environmental protection;
- develop and implement key projects to support the investment;
- *2015 Goal*: financing and interest rate support investment of 200 billion VND (equivalent to USD 9.7 million).

3.2.3 Deposit fund in mining activities

Based on the Decision No. 71/2008/QĐ-TTg dated May 29, 2008 of the Prime Minister, the Vietnam Environmental Protection Fund has developed the system of registration and receipt of the deposits for mining activities rehabilitation from organisations and individuals licensed for mining activities in the country from May 8, 2008. Total amount of the deposits for environmental renovation and rehabilitation of mining activities up to October 2011 was 32.5 billion (approximately USD 1.75 million) from 93 projects in 13 provinces / cities.

From deposit data, there are three main groups of deposits:

Table 6. Main deposit groups of the VEPF

No	Projects	No. of projects	Ratio(%)	Deposited fund (Bil. VND)
1	Coal mining	17	19.7	9
2	Metal mining	18	20.9	17
3	Construction materials	51	59.4	5

Through statistical table above, the group with the highest amount of deposit to the Vietnam Environmental Protection Fund is metal ore mining projects (17 billion), the projects on construction materials such as soil, sand, gravel, other materials (5 billion) has the lowest amount of deposit. Of the projects making deposits to the Vietnam

Environmental Protection Fund, the projects on construction materials are relatively high (51 projects), but the amount of deposit relatively low (5 billion).

On the deposit amount:

Table 7. Margin of the deposited fund at Vietnam Environmental Protection Fund

No	Margins	No. of project	Ratio (%)
1	100 million VND	36	42
2	From 100-500 million VND	23	28
3	From 500 million VND - 1 billion VND	9	10
4	More than 1 billion VND	18	20

The projects with a total of about 100 million deposit account for the highest proportion (42%, or 36 projects), followed by the projects with 100-500 million (28 %, or 23 projects), the lowest proportion (10%, or 9 projects) are the projects with the deposit of 500-1 billion. For projects with a total of 1 billion deposit account for about 20%, or 18 projects.

On the duration of deposits:

Table 8. Duration of the deposit at Vietnam Environmental Protection Fund

No	Duration	Targets	No. of projects	Ratio (%)	Fund
1	< 5 years	Construction materials mines	36	42%	< 100 million VND
2	5 – 10 years	Metal mines	15	17,4%	300-500 million VND
3	10 – 20 years	Coal mines	19	22%	> 500 million VND
4	> 20 years	Large coal mines	16	18,6%	> 500 million VND

The targets are mining activities in construction material with the time of the deposits relatively short (less than 5 years); the quarry and coal mines with large deposits have longer deposit time from 10-20 years and over 20 years.

The provinces where mining activities with deposits to the Vietnam Environmental Protection Fund include: Quang Ninh, Bac Can, Dien Bien, Ha Giang, Thai Nguyen, Hai Phong, Nghe An, Binh Dinh, Dak Lak, Ninh Thuan and Can Tho, Dong Thap and Soc Trang.

3.2.4 Clean Development Mechanism activities

In the implementation of the Decision No. 130/2007/QĐ-TTg dated August 02, 2007 by the Prime Minister on a number of policies and financial mechanisms for investment projects under the Clean Development Mechanism (hereafter referred a CDM project) and the Circular No.58/2008/TTLT-BTC-BTN on July 04, 2008 by the Ministry of Finance and the Ministry of Natural Resources and Environment guiding the implementation of some articles of the Decision No. 130/2007/QĐ-TTg dated August 02, 2007, as of May 10, 2011 there are four registered CDM projects and CERs fees collected by all four projects. The fees collected from selling / transferring CERs account for a total amount of 40 billion VND (equivalent to USD 2.2 million) and the fund to support CDM activities was over 1 billion (approximately \$ 50,000).

In the work plan for the period of 2011- 2015, the Fund will continue to support capacity building of CDM projects in Vietnam, and focus on the product to support CDM and renewable energy products. The Vietnam Environmental Protection Fund has set a goal to achieve in 2015 in order to support CDM activities with about 50 billion VND (equivalent to USD 2.5 million) and 2,000 billion (approximately USD 99 million) for subsidised products of CDM activities.

3.2.5 The development cooperation

Development cooperation activities of the Vietnam Environmental Protection Fund have been increasingly increasing with many organisations and individuals inside and outside the country in order to increase the position and support the operations of the Fund. In international relations, notably the co-operation with the Czech Republic Environmental Protection Fund, Denmark, France, Federal Republic of Germany, Japan and Korea. Specifically:

Cooperation with the Czech Republic:

- From 2006: entered into contract (MOU) with World Development Organisations of the Czech Republic (DWW);
- 2007: collaboration with the DWW to organize survey and study the experience of financial support for environmental protection projects at the Ministry of Environment, National Environmental Fund and localities in the Czech Republic;
- May 6, 2008: signing the cooperation with the Czech Republic National Environment Fund (SEF) in Prague;

- May 8, 2008: International Conference on environmental protection in Da Nang for the villages with funding from the PCDA - DANIDA and Czech Foreign Ministry;
- In 2008-2009: the Vietnam Environmental Protection Fund in cooperation with DWW developed the project "Installation of sustainable new and efficient energy - clean air for handicraft village, Bat Trang pottery";
- In 2009-2010: the Vietnam Environmental Protection Fund in collaboration with the Czech Embassy in Vietnam to co-finance the project:
 - ✓ The project to convert coal stoves/chambers to gas stoves/chambers to reduce pollution in the village of Bat Trang;
 - ✓ Research project to protect the lake in Hanoi;
- May 3, 2009: The Fund attended a workshop on environmental education, and responsibilities of relevant agencies in the Czech Republic;
- May 10, 2009: the Fund organised the International Conference in Phu Quoc Island - Vietnam and signed MOU between the Vietnam Environmental Protection Fund and DWW - SEF;
- May 9, 2010: the Fund organized study tour to exchange experiences in the Czech Republic;
- May 10, 2011: the Fund organised the International Conference on Phu Quoc on environmental protection and sustainable development; signing the third MOU between the Vietnam Environmental Protection Fund and DWW - SEF; expand cooperation with national and international partners to support environmental protection for Vietnam;
- May 11, 2011: the International Conference on environmental education and response to climate change.

In cooperation with DANIDA (Denmark) in the period of 2006-2011: The project PCDA on "Pollution control in poor densely populated areas" and information for the financial support for environmental protection projects in the local areas.

Cooperation with South Korea:

- 2005: cooperation with South Korea (ENVICO) with the project "Investigation on the activities of solid waste recycling in the area of Hanoi" with a donation of about \$ 20,000;
- 2011: the Fund organised study tour to learn of financial supports in Korea (KECO).

For organisations and individuals in the country, the Foundation advocates close cooperation with the related state management agencies, the provincial environmental protection funds, other financial institutions, banks and businesses activities in the field

of environmental protection to strengthen the financial support of projects and environmental protection activities at national scale. The main areas of cooperation include the loan management in environmental protection, financing, exchange of professional experiences, and coordination of the implementation of communication activities, education and raising public awareness on environmental protection in the school. Notably the collaboration with the Fund of the JetStar Pacific Airlines has been set up and used the carbon credits from the voluntary contributions of passengers with the goal of reducing greenhouse gas emissions. In addition, the Fund also cooperates with the Ministry of Science and Technology to implement energy saving projects, converting coal into gas furnaces for ceramics in Bat Trang village.

In the future, the Fund will have cooperation for the development as follows:

- to actively expand and further develop the activities with other organisations at home and abroad;
- to receive the financial resources from all domestic and international organisations to support environmental protection work in different forms: funding, financing, trust,...
- to exchange experiences and learn from cooperation with the national and international funds on environmental protection;
- to develop further development activities with other organisations of Czech Republic;
- to cooperate with the Embassy of the Czech Republic in Vietnam to sponsor at least one environmental protection project annually.

3.2.6 Perform other assigned tasks

From 2010 to date, Vietnam Environmental Protection Fund has actively carried out the duties assigned by MONRE, which focuses primarily on organizing awards for Vietnam environmental protection activities annually and environmental response in the aftermath of storms and floods or dealing with other environmental problems. Through these tasks, the Fund has contributed significantly to the propaganda and education to raise public awareness on environmental protection.

3.3 The difficulties, problems and inadequacies

3.3.1 Operating capital

a) Capital:

According to the Decision No. 35/2008/QĐ-TTg on March 3, 2008 by the Prime Minister on the regulations on organisation and operation of the Vietnam Environmental Protection Fund, the current level of charter capital of VND 500 billion fund. In comparison of the charter capital of Vietnam Environmental Protection Fund at the present time the capital of financial institutions of equivalent level is considered too low.

Specifically, the People's Central Credit Fund (3,000 billion), Bank for Social Policy (5000 billion), Development Bank (5,000 billion), the minimum capital of commercial banks (3,000 billion). Therefore, the charter capital of the Fund cannot meet the demand for loans for investment in environmental protection projects at the present time.

For further clarification, the Vietnam Environmental Protection Fund has conducted investigation and survey on the demand for loans from the Fund for the investment in environmental protection projects which are being developed and deployed in some areas with dense population, there are many industrial parks such as the Dong Nai River Basin, Nhue River basin and some provincial industrial growth such as Thai Nguyen, Hai Phong, Da Nang, Quang Ngai... The survey showed that the needs of investment projects on environmental protection will increase rapidly in the period 2010 - 2012.

Preliminary statistics of funding activities of the Fund (in the absence of additional allocation) and the demand for loans from the Fund as follows:

Table 9. Needs for loans from Vietnam Environmental Protection Fund of the environmental protection projects

Unit: billion VND

Criteria	2010	2011	2012
1. Needs for loans from VEPF (data surveyed from business sectors)	4,024.00	6,000.00	8,000.00
2. Operating cost	776.12	766.28	750.00
National budget	729.07	715.53	695.53
3. Fund execution:			
- Loans	547.32	741.85	720.00
- Finance and other forms	14.64	20.90	30.00
- Remaining liquidity	214.16	3.53	0

Through analysis of survey data and surveys show that the capital of the Fund may not be able to meet the demand for investment projects in environmental protection (this survey was only for the key areas of environmental pollutions and contamination).

The process of attracting capital from other sources is unstable and very difficult due to the size of the fund is not large enough to attract the attention of organisations and individuals inside and outside the country.

b) Capital supplemented annually from the state budget:

Currently, the additional funds provided annually from the state budget for the Vietnam Environmental Protection Fund also face many obstacles and difficulties. Typically, as stipulated in the Decision No. 35/2008/QĐ-TTg dated March 3, 2008 of the

Prime Minister showed a number of obstacles which are not consistent with the Law on State Budget, the guidelines are not comprehensive leading to difficulties in implementation. Specifically as follows:

- According to the Decision No. 35/2008/QĐ-TTg, environmental protection charges for waste water, air pollutants, solid waste, mining activities and other fees must be regulated for environmental protection activities of the Vietnam Environmental Protection Fund. In fact, from 2008 to May 5, 2010, additional funds from the state budget have been added to the Fund with an amount of 240.24 billion.

However, under the Decree No. 137/2005/ND-CP dated November 09, 2005 on environmental protection charges for mineral activities and the Decree No. 174/2009/ND-CP dated November 29, 2007 on charges for environmental protection from solid wastes and the Decree No. 26/2010/ND-CP dated March 22, 2010 amending the Decree No. 67/2003/ND-CP dated June 13, 2003, the revenues are 100% retained at local level, not supplementing to the state budget since 2010, therefore there was no additional source of funds for the Vietnam Environmental Protection Fund.

- The compensation for environmental damages under the provisions of law shall be received and supplemented to the state budget and transfer to the Fund as required, however there is currently no specific guidance on this issue.
- Similarly, fines for administrative violations of environmental services are paid only a small part to the state budget and the Fund has not been supplemented.
- ODA for the environment has not been assigned to the Fund.
- There is no guidance for the state budget expenditures on environmental protection, therefore there is no fund allocated to the Fund.

c) Other additional capital:

- Fee for sale / transfer of CERs: obtained on the basis of the implementation of CDM projects in Vietnam and CERs exchanged on the market. Currently, Vietnam is a country rated as having relatively high potential for CDM. However, in practice investment situation in implementing CDM projects in Vietnam face many difficulties and so far only four CDM projects issued CERs, notably the project "Recovery of associated gas in Rang VND oil rig" has a large scale of CERs issued for the entire project with 6.6 million of CERs. The three remaining projects are small hydro projects with a total CERs issued of 24,698 CERs with the fees earned of 35.53 billion.
- Financial assistance, support, contributions and investment trusts of organisations and individuals inside and outside the country: currently attract at a very low level, mainly through small projects proposed by the Fund on the basis of activities to

support families, small business investment in technology transfer of cleaner production, sponsored propaganda, raise public awareness on environmental protection.

3.3.2 Loans with preferential interest rates

Currently, in the context of the global recession, economic and market difficulties, the investment activities, including investment in environmental protection is limited. The main reason is that investment in environmental protection investments is unprofitable or less profitable. So businesses are not motivated to invest in environmental protection loans. As a result, despite the demand for loans remains high, the real lending with preferential interest rates is still low.

For specified regulation in the loan business with preferential interest rates there also exist many problems and difficulties. Specifically:

As mentioned above, investments in environmental protection investment have little or no benefit and should have a payback period of relatively long time. However, under current rules on term loans with preferential interest rate of the Fund of no more than 10 years, the pressure on loan for the investor is the time for loan return.

Besides, the investment in environmental protection projects is often diverse with different investment conditions and interests. So applying the same rate for all loans from different targets for environmental protection investment is not reasonable. Also, the maintenance of a preferential interest rate fixed throughout the loan term has brought favourable condition for both lenders and borrowers to easily track and manage the loan, but it also creates difficulties. Specifically, the preference of the loans will be reduced in case the financial market changes with interest rates decline. These factors make investors hesitate when considering applying for the loans from the Fund.

In principle, the investors who have the demand for loans with preferential interest rates from the Environmental Protection Fund need to have deposit or third party guarantee. However, many targets causing serious environmental pollution and extending the investment required to handle environmental treatment have financial difficulties, no guarantee property to secure the loans and/or have no other institutions to guarantee for them (as the case defined in the Decision 64/2003/QĐ-TTg dated April 22, 2003 of the Prime Minister). This is one of the difficulties for businesses that wish to borrow from the Vietnam Environmental Protection Fund.

Credit risks need to be prevented during the lending process with preferential interest rate of the Fund. The reason for the investment environment is a type of investments that do not bring direct economic benefits, but contains many unpredictable risks.

3.3.3 Sponsor and co-financing

Among the targets who need funding or co-financing, there are some targets at local, grassroots levels who are in a situation to overcome environmental pollution caused by natural disasters, floods, oil spills or diseases...., but to comply with proper procedures of the funding, it will take a great amount of time (usually from the documented instructions to disbursement of at least 45 days), therefore they will not have sufficient time to respond to funding requirements. In addition, the provisions and requirements of local establishments in the state of emergency to ensure reciprocal of 50% financing is also a difficult condition to fulfil.

3.3.4 Deposits for environmental restoration in mineral exploitation

During the deployment to receive deposits from organisations and individuals permitted for mining activities, the Vietnam Environmental Protection Fund found that there are some difficulties and shortcomings such as no guidelines, regulations for organisations and individuals who have made deposit for environmental improvement and restoration under Joint Circular No. 126/1999/TTLT-BTC-BCN-BKHCNMT dated October 22, 1999 on the transfer of money to be deposited in other credit institutions to the Vietnam Environmental Protection Fund or the provincial environmental protection funds. Also, there are no sanctions for institutions and individuals to delay additional deposit as prescribed in Clause 4, Article 9 of the Decision No. 71/2008/QD-TTg dated May 29, 2008 by the Prime Minister.

According to survey data of the Vietnam Environmental Protection Fund, mining companies have implemented much more mining activities than the number declared in the production records or mining plan as indicated in the license. Currently, there are no studies evaluating the rehabilitation plan for the environment after mining activities which can reflect the real impacts. On the other hand, no statistical survey on the rate of companies who comply and/or do not comply with the state's law and the provisions to guarantee social responsibilities and obligations of investors in mining activities.

3.3.5 Management of CDM projects

Regarding the clean development mechanisms, policies and legal gaps still exist. There are now regulations of financial mechanisms to support CDM projects (Decision No. 130/2007/QD-TTg dated August 02, 2007 by the Prime Minister on a number of mechanisms and financial policies for investment projects under the Clean Development Mechanism and Circular No.58/2008/TTLT-BTC-BTN dated July 04, 2008 of the Ministry of Finance and the Ministry of Natural Resources and Environment guiding the implementation of some articles of the Decision No. 130/2007/QD-TTg dated August 02, 2007 by the Prime Minister) which specified fees from sale / transfer CERs to partially cover expenses for operation of the Steering Committee for the implementation of the UNFCCC and Kyoto Protocol in Vietnam. However, in stipulating support for the

operation of the Steering Committee for the implementation of the UNFCCC and Kyoto Protocol, there has not yet been agreement with the Decision No.1916/QD-BTNMT dated November 27, 2007 of the Minister Natural Resources and Environment on the cost for the activities of the Steering Committee from the state budget. The reason is that there is no specific guideline on financial support for activities of the Steering Committee.

The provisions of the Circular No. 58/2008/TTLT-BTC-BTN&MT dated July 04, 2008 of the Ministry of Finance and Ministry of Natural Resources and Environment remains some limitations and inadequacies. Specifically, the Circular only guides the process of authorization to pay fees, not the authorization of CERs registration, there is also no sanctions in the case CDM project investors violate the regulations on registration of CERs, declaration and fee for sale / transfer of CERs.

To date, Vietnam has 253 CDM projects with issued CERs and most owners have violated the regulations on registration time.

Regarding the price of CERs, the Decision No. 130/2007/QD-TTg dated August 02, 2007 specified the price of CERs to be determined on the basis of agreements at market prices at the time of sale. The Circular No.58/2008/TTLT-BTC-BTN dated July 04, 2008 of the Ministry of Finance and Ministry of Natural Resources and Environment specified CERs price to be determined on CERs sales when the contract is signed. Thus the two documents are not clear on the price of CERs to be based on market price at the time of sale or the price when the contract is signed, making it difficult to determine the price to calculate the fee for sale / transfer of CERs.

In addition there are reasons due to the lack of activeness in the implementation of works, limited staff capacity (especially in the appraisal records of the product to support CDM). Management and professional capacity of financial officials remain limited, leading to difficulties in the implementation of works.

3.3.6 Difficulties, obstacles and other shortcomings

- Members of the Fund's Management Council mostly work on part-time basis with limited time spent for operating and managing the Fund, leading to some limitations in the operating capacity of the Management Council. In addition, the current structure of the Fund is not complete, with some parts missing such as internal management and legislation. At the same time, work experience and capacity of the professional divisions remain lacking with employees hired based on the annual demand from various sources, leading to uneven professional quality.

- There is no defined mandate of state management authority on financial issues for the environmental protection funds in Vietnam from the Ministry of Finance and Ministry of Natural Resources and Environment, causing difficulties for the Fund in carrying out the procedures for receiving budgets and settlement of the sources for the operating funds according to his ... and the executive agencies operating in the business.

- The relationship between the Vietnam Environmental Protection Fund and the state management agencies and other related competent authorities has not yet been

specified such as the responsibilities of the line ministries related to the organization and operations of the Fund, leading to confusions in the handling issues of state management within the operation of the Fund.

- There is no official policy or legal document defining the relationship between Vietnam Environmental Protection Fund and the provincial environmental protection funds, therefore the provincial environmental funds still operates independently from the Vietnam Environmental Protection Fund, creating the lack of linkages and ways to optimize the capacity of each institution, particularly to the newly established provincial environmental protection funds who often have difficulty in the organization and operation when deploying the operations and services.

4 PROVINCIAL ENVIRONMENTAL PROTECTION FUNDS

4.1 Legal basis and organisational structure of provincial environmental protection funds

Article 115, LEP 2005 contains provisions that *"the Vietnam Environmental Protection Fund is a financial institution established in the central and local levels to support environmental protection activities. The State encourages enterprises, organisations and individuals to fund environmental protection activities"; "Operating capital of Vietnam Environmental Protection Fund, local and sectoral environmental protection funds are developed from the state budget, fees for violating the Law on Environmental Protection, the compensation of environmental damages and fines for administrative violations in the field of environmental protection, subsidies, contributions, and investments of organisations and individuals inside and outside the country".*

Also in accordance with the Law on Environmental Protection in 2005, the Vietnam Environmental Protection Fund established with the mandate defined as follows: *"The Prime Minister shall prescribe the organisation and operation of the Vietnam Environmental Protection Fund, Environmental Protection Funds of the ministries, ministerial agencies, government agencies, state-owned corporations, Provincial People's Committee shall decide the establishment, organisation and operation of provincial environmental protection funds. Organisations and individuals are to establish and operate its environmental protection activities under the Fund's charter".*

In addition, based on documents and other relevant legislation such as: Decision No. 71/2008/QĐ-TTg dated May 29, 2008 of the Prime Minister on environmental improvement and restoration for mining projects, environmental protection projects of provinces and cities, considering the request of the management bodies of the provinces such as the Department of Natural Resources and Environment, Department of Planning and Investment,... Provincial People's Committee will decide to set up the organisation, regulation and activities of the provincial environmental protection funds.

Depending on the actual situation in each province / city, the provincial environmental protection funds may be under the Department of Natural Resources and

Environment (Environmental Protection Funds in Binh Duong, Vinh Phuc, Ha Noi, Quang Ninh, Kien Giang, Tuyen Quang, Thua Thien Hue, Dong Nai, Lang Son, Thai Nguyen, Ha Noi, Ha Giang...) or directly under the Provincial People's Committee (Environmental Protection Funds in Son La, Hai Duong, Binh Thuan and Ba Ria - Vung Tau).

Organisation chart of the provincial environmental protection funds is as follows:

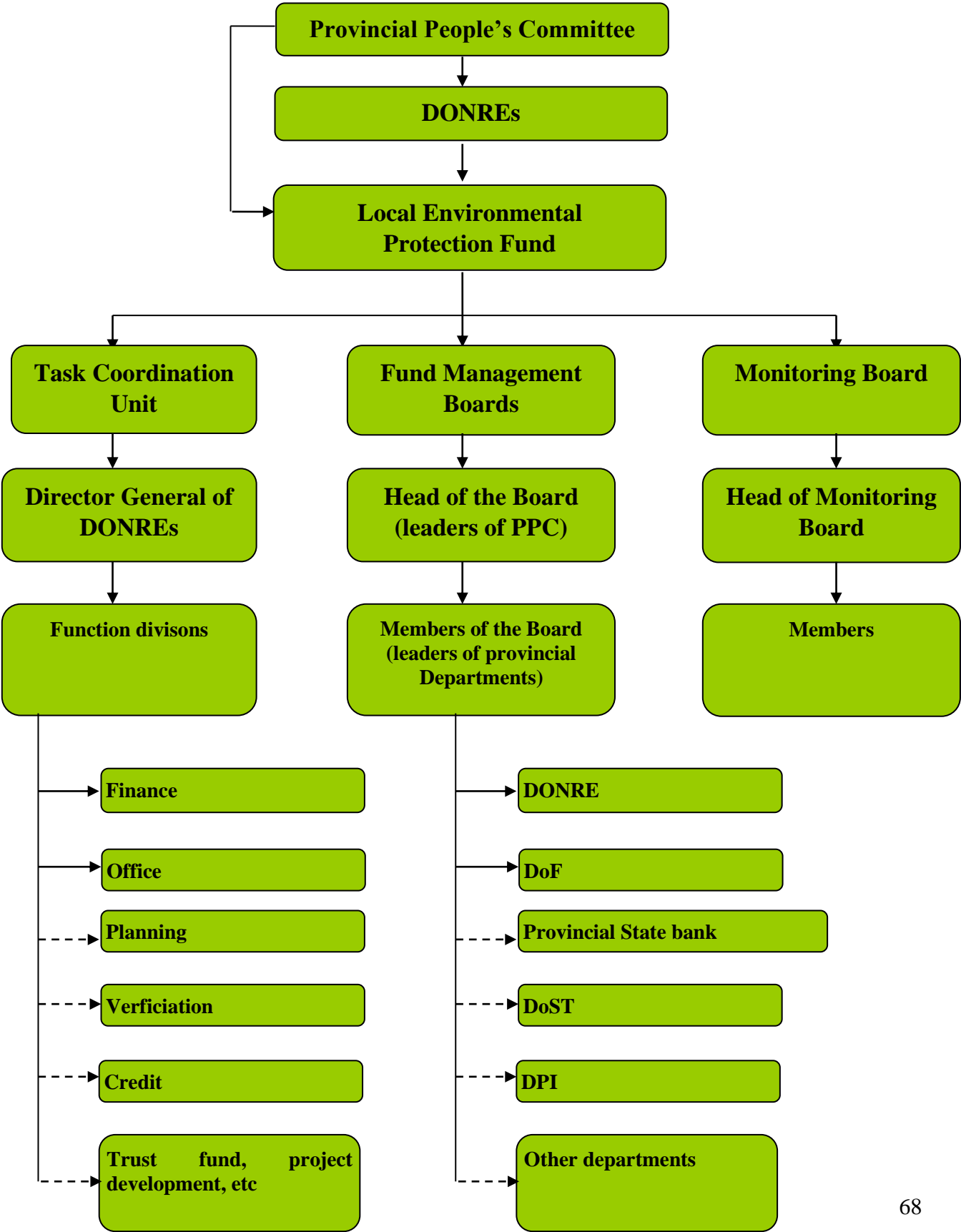


Figure 8. Organisational structure of provincial environmental protection fund

Operation principles of the provincial environmental protection funds:

Provincial environmental protection funds' activities are not for profit, to secure capital and cover administrative costs.

Capital sources:

The charter capital of the provincial environmental protection funds are sourced from state budget funds in the provincial / municipal level. Depending on the specific conditions of each locality, the charter capital of the funds is ranging from 50-30 billion.

Funds raised from other sources:

- Fees deducted from the revenues and costs for environmental protection in accordance with 10% funding for management activities of state environmental protection annually;
- Compensation of environmental damages (the amounts payable to the State budget);
- Cash and voluntary contributions, and funding assistance from the organisations and individuals inside and outside the country;
- Other revenues as prescribed by law.

Scope of financial support:

- Projects on waste treatment and handling environmental pollutions.
- Projects to reduce, reuse, recycle wastes, waste disposal of industrial parks, urban centres, hospitals, suburban areas, livestock activities and villages.
- Research and implementation of measures to reduce environmental pollutions, cleaner production, prevention and remediation of environmental incidents.
- Research and implementation of pollution reduction technologies and environmentally friendly technologies.
- Education, communication, training and awareness raising on environmental protection and sustainable development.
- The projects and activities on development and increase community's participation in environmental protection works.
- Rewards in the field of environmental protection. Dossiers of application for loan

Form of financial activities:

- Loans with preferential interest rates:
 - Preferential interest rates: interest rates not less than 1/3 of the interest rates of credit institutions at the time of borrowing (0.5% / month (6% / year).

- Loan Limits: $\leq 70\%$ of the total investment of the project.
- Loan term: ≤ 5 years including a grace period of years.
- With the loans with interest rate support for investment projects for environmental protection when borrowing from other credit institutions, the level of interest rate support will be decided by the Fund Management Board, but not more than the interest rates of credit institutions at the time of the contract interest for rate support.
- Sponsor and co-financing
- Trust and entrustment.
- Investments in bonds.

Targets for financial supports:

Organisations and individuals who have the programmes, projects, activities and tasks of environmental protection at local level with interdisciplinary character or proposed to solve local environmental problems with the scope of intervention in the fields of pollution prevention, environmental degradation and problems in the province / city.

Conditions for support, loans and credit:

- For loans with preferential interest rates: Loan security:
 - ✓ The Fund giving the loan on the basis of security assets by way of pledge, mortgage, including guarantor party or use of assets formed from loan capital to secure.
 - ✓ In special cases, the loans which are not secured by assets will be considered and decided for each programme or project funded by the Fund Steering Committee.
- For the interest rate support loans: Investors of projects for environmental protection receive only the interest rate support for capital investment loans at credit institutions within the total investment of the project. Investors are not supported with interest rate for overdue debts.

Dossiers of application for loans with preferential interest rates from provincial environmental protection funds include:

- Documents investors must submit:
 1. Request for loan;
 2. Approved environmental protection investment projects;
 3. The plan for the use of the loans;
 4. Repayment plan;

5. Plans to secure the loans.

- The accompanying documents to be submitted include:

The legal documents:

1. Establishment decision (if any)
2. Charter operations (if any)
3. Certificate of business registration or investment license (for enterprises with foreign investment).
4. Decision on the appointment and a copy of identity of the legal representative and chief accountant.

The financial records:

1. Financial report in 03 years;
2. Production and business plans.

The records for the loan security:

1. A list of assets used as collateral to secure loans and other documents proving ownership, permitted transactions and there is no dispute of collateral.
2. Certification by the guarantor in case of the loan guarantee.

The process of project appraisal for a loan with preferential interest rates:

Step 1:

- Periodically (first quarter) every year, the Board of Local Environmental Protection will have a management meeting and decide a list of objects, the list of funding priorities, rates and loan term for projects.
- The targets in need of financial support will be directly working with the Provincial environmental protection funds at the Fund office. Besides, the Provincial environmental protection funds will seek information from customers; consult on the support methods, procedures and records of financial assistance request. The targets must prepare dossiers of financial support in accordance with the requirements of provincial environmental protection fund on their needs.

Step 2:

- The Fund Office of evaluation will receive the dossiers and check them to ensure they fulfil the requirements of the Provincial environmental protection fund and the law.
- Evaluation of dossiers:

Through the Supervisory Board for specialized evaluation; the records will be checked for all legal, financial and environmental aspects to ensure:

- The accuracy, correct record and accompanying documentation;
- The relevance of the documents of the projects accordingly to criteria of the Fund's financial support and for the purpose of environmental protection:
 - There is support for the project or not? Why?
 - Mode of support, level of support?
 - Issues related to the Fund's decision to support?

Step 3:

- Based on the results of evaluation records, projects and funding proposals, the Fund Management Council, Director of Environmental Protection Fund will decide to provide financial assistance to the projects.
- Based on the needs and progress of funded projects, the investors provide documents as required by the Environmental Protection Fund to be financed under the credit agreement, or decided as grants by the Fund Management Council.
- The capital allocation is implemented through the Provincial Development Fund commissioned by the Environmental Protection Fund in the form of lending credit.

4.2 Selected environmental protection funds in Ho Chi Minh City

Currently, Ho Chi Minh City has not yet established provincial environmental protection funds, but there are a number of funds established for the purpose of environmental protection such as TP-waste recycling fund. HCM; Financial Investment Company City State. HCM (HFIC) (revolving fund; Fund to reduce industrial pollution - small industrial city. HCM).

4.2.1 Waste recycling in Ho Chi Minh City

The Municipal Waste Recycling Fund of Ho Chi Minh City (HCMC Waste Recycling Fund - REFU) was established under the Decision No. 5488/QĐ-UBND dated November 30, 2006 of the HCM City People's Committee. The Waste Recycling Fund is directed by the Department of Natural Resources and Environment on the operational activities.

The Waste Recycling Fund is a financial institution, operating not for profit, with support functions to provide loans to implement programmes, projects, test projects, applied research in management, recycling and reuse of waste to reduce waste discharged to the environment, improve the efficient use of natural resources in accordance with the law on environmental protection.

The main function of the waste recycling fund includes:

- To support for loans to implement the programme, test projects, applied research in the field of management, reuse, recycling waste;
- To coordinate with other agencies and organisations involved in the construction and proposed regulatory framework, incentives system related to recycling activities;
- To coordinate activities in the field of waste recycling and CDM to promote and support the implementation of strategies for environmental protection;
- To mobilize the participation of businesses and communities with the right to conduct activities to reduce, reuse and recycle waste;
- To mobilize, attract and receive donations from organisations and individuals inside and outside the country for the projects on waste recycling activities;
- To cooperate with other organisations and individuals at home and abroad, the international organisation of professional issues related to waste recycling activities.

Apparatus of the executive management of the waste recycling fund include Management Board, Supervisory Board and Executive Board. The appointment and dismissal of civil servants and leaders of organisations for operating the waste recycling fund are conducted by the decentralized management institutions - officials of the city.

The Management Board, Supervisory Board and Executive Board of the waste recycling fund are responsible for developing the organisation and operation of the Fund and submit to the President of the City People's Committee to be approved to ensure the implementation of management requirements, the operating organisation and operation of credit guarantee funds in accordance with the objectives, economic - social efficiency and related regulations of the State and City People's Committee.

Director of the Ho Chi Minh City Waste Recycling Fund is the legal representative, responsible for administration and management of the Fund before the Fund's Management Board, the Director, the Department of Natural Resources and Environment of Hochiminh city, Vietnam., the Director of Finance for the entire operations of the Fund.

The Waste Recycling Fund's charter capital when established was 50 billion provided from the city budget. Each year the Fund is granted additional operating capital budget as prescribed by law. In addition, the Fund has raised funds from other sources including revenue sources in the field of waste recycling; the revenues from CDM projects; the mobilization of foreign capital; and other charges under by law.

The programmes and projects in the field of waste recycling are supported, lent by one of the following methods: support for partial or total loans, zero interest loans or preferential interest rates.

Targets for support and lending include:

- Organisations and individuals who have the programmes and projects related to waste recycling activities in the Ho Chi Minh City or recycling of municipal waste in other places;
- Organisations and individuals who have the programme, test projects, application of research results and technologies in the field of waste recycling in the Ho Chi Minh City;
- Programmes and other related projects as decided by the City People's Committees.

The targets who will be receiving supports and loans must satisfy the following conditions:

- Must have sufficient professional qualifications, financial and infrastructure conditions and technology in accordance with waste recycling sector and subject to the Fund's Advisory Board professional evaluation and acceptance;
- Ensure that funds used to support and / or loan accordingly to the purposes approved;
- Ensure timely repayment of loans.

Principles of support and lending:

- Organisations and individuals who apply for assistance and the Fund's loans are selected publicly and in equal manner through specialized Advisory Council established by the Fund;
- No support items and programmes that overlap with other programmes is funded by the Fund or other funds of the State;

The Fund can coordinate with other agencies, units and other organisations to provide support and loans.

The implemented operation and programmes:

- On the CDM programme:
 - Support and promotion of CDM projects at two landfills in Dong Thanh and Phuoc Hiep 1 KMDK Company (Korea);
 - Survey, study, assess the potential implementation of CDM projects in Vietnam: waste water treatment projects and coordinate with departments for preliminary assessment of potential CDM projects in Vietnam and other provinces to coordinate with international organisations in implementing CDM projects in Vietnam (Border Energy Organisation, Sodokwon Landfill Company...).

- On the recycling activities:
 - Plastic recycling activities: survey the situation and support to promote plastic recycling industry in Vietnam through the production company and plastic recycling; survey and assess the status of medical plastic waste in hospitals and medical centres in the city. The City also coordinates with the Solid Waste Management Division - Department of Natural Resources and Environment to promote the establishment of the Recycled Waste Association of Ho Chi Minh City.
 - Implementation of scientific research: study of options to reduce the use of plastic packaging in Ho Chi Minh City towards sustainable consumption patterns; the specified research areas related to recycling through the project "Development of regulations relating to the field of recycling (paper and plastic packaging)...
 - International cooperation in the field of recycling: Chinese equipment for recycling waste PET bottles into products such as synthetic carpets; medical plastics recycling in Ho Chi Minh City and DR Korean Company on recycling markets in HCMC.

4.2.2 Ho Chi Minh City Finance and Investment Company (HFIC)

Ho Chi Minh City Finance and Investment Company (HFIC) was established under the Decision No. 576/QĐ-UBND dated February 02, 2010 of the City People's Committee, a State-owned one-member limited liability company on the basis of the organisation of the Investment Fund for Urban Development in Ho Chi Minh City (HIFU) established on September 10, 1996 by the Decision No. 644/TTg of the Prime Minister and formally came into operation on May 19, 1997.

HFIC's activities in the field of environmental protection include:

Credit financing is one of the major activities of HFIC today. Operating capital in credit financing for environmental projects including:

Capital revolving fund (ADB loan)

Revolving fund is formed from loans of the Asian Development Bank (ADB) (2.5 million U.S. dollars) with the lending institutions from 70% of ADB funds, 15% from the capital of HFIC and 15 % is the counter fund of the owner.

Sources of revolving fund capital used to support investment in projects to reduce industrial pollution, cleaner production of industrial enterprises and handicraft industries in Vietnam.

Revolving funds operate on the principle of public interest, self-subsistence operation costs, preserve and develop the capital investment on the basis of financial support to be effective, in accordance with the provisions of current law of the investment credit.

Loan limit for each project in Vietnam VND is equivalent of maximum USD607,000 (including USD500,000 from the capital of the ADB and USD107,000 from the capital of the HFIC). Lending period is ranging from 3 to 7 years depending on each project, including grace period up to one year. Lending rate is fixed by 4% / year during the loan period for the case of loan from the ADB.

There have been 21 approved projects with a total loan amount approved of 93.5 billion VND, total amount disbursed of 65.7 billion, and debt recovery was 53.1 billion while 12.6 billion was outstanding.

Ho Chi Minh City Fund for reduction of pollution from industry and handicraft (referred to as HCMC Pollution Reduction Fund) (Capital Budget)

Ho Chi Minh City Fund for reduction of pollution from industry and handicraft (under the Department of Natural Resources and Environment) was established under the Decision No. 5289/QD-UB-KT on September 14, 1999 of the City People's Committee and entrusted to the City Financial Investment Company and HFIC for loan management. Initial charter capital of the Fund is USD1 million (equivalent to 14 billion), from May 9, 2003 and has been added to 24 billion at the current time.

Fund activities aim at supporting projects to reduce pollution and waste disposal business in Vietnam's industrial production and handicraft industries or businesses' implementation of resettlement programmes of the City.

Regarding the mechanism of operation:

- On the design and estimate evaluation: the Department of Natural Resources and Environment is responsible for evaluation and approval of technical designs and estimates of the project.
- On the decision authority: The Management Council approves pollution reduction projects with less than 1 billion VND loan; the City People's Committee is responsible for approval for investment projects with a total loan of 1 billion or more.
- On the disbursement procedures: Pursuant to the loan approval decision, HFIC guides the organisation and individuals with the loans documentations and signed credit agreement, loan security contract (if any), timely and appropriate disbursement under the credit contract. For projects with a total loan less than 100 million, the disbursement procedure will be implemented once. For projects with loans of 100 million or more, the disbursement procedures will be based on the progress of the project.

For the borrower:

- Enterprises of all economic activities in manufacturing industry - small industry with pollution incidents that need to be dealt with.

- The businesses' implementation of resettlement programmes of the City.

The businesses' implementation of resettlement programmes of the City's policy are to be supported with the entire interest on bank loans to invest in items for dealing with pollution in the downstream areas, following a plan and decision for bank loans.

Conditions for support to the bank loan interests: a decision from the City People's Committee is required for businesses to relocate to new places and investment projects to deal with downstream pollution by the competent authorities for approval, the loan contract with credit institutions and plans to return agreed between the bank and the businesses and consistent with the market interest rate.

Duration for supports to the bank loan interests: not more than 5 years.

Characteristics of the Fund for reduction of pollution from industry and handicraft:

- Interest rate: 0%/year, the current trust fees are 1.8% / year (management fee under the current mandate issued by the City People's Committee).
- Loan period: maximum 5 years.
- Loans security: non-state enterprises who have mortgaged property, including buildings, housing and transportation means. State enterprises do not need to have mortgage / pledge / sponsor assets.

The value of assets for securing loans formed from a minimum of 30% of total project investment loans, 50% residual value to mortgage the existing property by the borrower, such as housing, factories and vehicles. For items for treatment of pollution in downstream area (processing system such as wastewater or air pollutants treatment), investors may make recommendations to the bank and/or credit company to mortgage assets from major investment for these items.

As of now, HFIC has signed 39 contracts with a total credit value of 27 billion and 01 support contract worth 342 million, disbursement of 21 billion and loans with support rate of 310 million. Debt recovery was 20.2 billion.

Other sources (AFD, World Bank,...)

Since 2006, HFIC has attracted funding from international financial institutions such as 30 million Euros of the French Development Agency (AfD), 50 million of the World Bank (WB). To date, The Fund has implemented highly effectively and appreciated by donors. Currently, HFIC is preparing to receive letters of credit support package worth 20 million Euro from the AfD. In addition, HFIC is also committed to have funding of USD 190 million from the World Bank for local investment funds.

The Fund capital aims at supporting environmental projects in the city to handle hospital wastewater, industrial waste and solid waste. Interest rates are calculated under the interest rate of each source but always less than or equal to the average interest rate of HFIC.

As of July 2011 there were 7 approved projects with a total disbursement of more than 312 billion. Typical projects include:

- The project to build the landfill in Zone No. 2 of the solid waste treatment complex in the North-western of the City - Phuoc Hiep Landfill: 220 billion.
- The project to build Go Cat treatment plant for landfill leakage: 61.3 billion.
- Investment project on wastewater treatment system at Hung Vuong Hospital and Children's Hospital by Vietnam - Japan Environment Company Limited. Total loan is 12 billion.

In addition to activities in the field of environmental protection of the HFIC as mentioned above, there are other projects to raise awareness and responsibility for environmental protection and safety for the investors such as the HDP project (conducted in 2007-2009) and the HCE2 project (implemented in 2010-2011).

4.3 Results of provincial environmental protection funds

As of today, provincial environmental protection funds have been set up in 17 provinces of Vietnam. The provincial environmental protection funds established in some provinces are mostly in the process of finalizing regulations for the organisation, structure and operation, and in particular, operating capital. Therefore, the main activities of the new provincial environmental protection funds focused on two main areas: loans with preferential interest rates (for environmental protection projects) and receive deposits for recovery of environmental problems (for mining activities). As for Thanh Hoa provincial environmental protection fund, newly formed from December 07, 2011, the fund has not performed the operation of financial support.

The main cause of provincial environmental protection funds not established in some provinces is due to the current environmental protection fees, fines for administrative violations in the field of environmental protection, and compensation for environmental damages and security deposit for restore the environmental problems caused by mining operations... are remitted to the provincial / city treasury. On the other hand, in these localities, enterprises have invested in environmental protection without the need to use support funds from provincial environmental protection fund.

The results of the provincial environmental protection funds in some provinces are as follows:

a. Lending with preferential interest rates.

As reported by 16 provincial environmental protection funds, as of now 6/16 use part of the provincial capital of the Fund to carry out lending activities with preferential interest rates.

Depending on the conditions and characteristics of each locality in which the interest rate and loan period differs:

- The lending rates: the maximum rate of Binh Duong provincial environmental protection fund does not exceed 70% of base rate by the State Bank announced in each period; the rate of provincial environmental protection funds in Binh Thuan, Dong Nai, Lam VND, Son La provinces is about 50% maximum rate for commercial loans; Hanoi provincial environmental protection fund lending rate is 0.5% / month or 6% / year.
- The maximum loan term: 5 years (provincial environmental protection funds in Binh Duong, Binh Thuan, Dong Nai provinces; some special cases may be longer but not more than 7 years), 3 years (Hanoi provincial environmental protection fund).
- Loan up to 70% of total project investment for environmental protection (provincial environmental protection funds in Binh Duong, Hanoi, Dong Nai, Son La provinces). For Binh Duong provincial environmental protection fund the loan may not exceed the maximum 15% capital fund activities at the time.

Specifically, in each locality, lending with preferential interest rates is given with the following procedures:

Hanoi Environmental Protection Fund: The Fund's primary mandate is to lend with preferential interest rates, financial support for investment in environmental protection projects and funding. After a stabilisation of the organisational structure and officially went into operation, the Fund has implemented 13 projects for loans at preferential interest rates, with total disbursements of nearly 60 billion, of which the performance of each year as follows:

- in 2008: the Fund has disbursed the loan amount to 03 Projects with 5,861,000,000;
- in 2009: the Fund has disbursed the loan amount to 06 Projects with 9,850,000,000;
- in 2010: the Fund has disbursed loan amount of 10.187 billion VND;
- 6 months in 2011: the Fund has disbursed 33.54 billion for the same loan amount with 04 projects.

Dong Nai provincial environmental protection fund: Dong Nai provincial environmental protection fund is officially in operation from May 6, 2006. Although the funds are limited, but Dong Nai provincial environmental protection fund has actively supported with loans at preferential interest rates for environmental protection projects. To date, the Fund has approved loans for 16 projects with total capital of 44.974 billion, which has disbursed 11 projects with a capital of 23,985,790,000 for the projects of construction of wastewater system, the investment in waste compacting vehicles, hazardous waste incinerator.

Binh Duong provincial environmental protection fund: Since its establishment, the Fund within three years has conducted the evaluation and approval for 18 projects

and 16 loans with total loans of 26.996 billion VND. In that particular, annual performance is as follows:

- in 2009: approval for four projects, including projects to build a wastewater treatment system, 3 waste collection vehicles, with the loan approval of 6,120,000,000 VND
- in 2010: approval for eight projects, including a project for waste collection vehicles, an investment project to install crematoria equipment, six projects to build wastewater treatment system, with the loan approval of 14,367,000,000 VND;
- in 2011: approved for six projects, including a tank car for irrigation, 5 construction project of wastewater treatment system, with the loan approval of 6,509,000,000 VND.

Vinh Phuc provincial environmental protection fund: After two years of operation, there were 03 project dossiers of registration of approved loans with preferential interest rates from Vinh Phuc provincial environmental protection fund with a total of 9 billion, specifically the following projects:

- Construction of wastewater treatment system of 400 million, a preferential interest rate is 5% / year, 02 year loan period.
- Construction of automatic sprinkler systems in the production of bricks of 1.6 billion, a preferential interest rate is 5% / year, 03-year loan period.
- Construction waste recycling centres of 7 billion, a preferential interest rate is 5% / year, 05-year loan period.

In 2011 the Fund is conducting the evaluation, approval 04 project loan from the Fund (including the project to build wastewater treatment system, air pollution treatment, noise and environmental protection in mining activities, building exhaust treatment systems for powder paint factory and wastewater treatment system of the waste collection cooperative) with the loan request of 9 billion.

Lang Son provincial environmental protection fund: Results after the second year of operation the Fund has gradually improved and contributed positively to environmental protection projects in the province.

- Lao Li stream embankment construction project with landfill in the City of Lang Son by Huy Hoang Company Ltd. with 01 billion loans.
- Equipment procurement project for waste collection/transportation and construction and renovation in Deo Quao landfill, Chi Lang District, of the Thanh Linh Company Limited with the loan amount of 700 million.

Ba Ria - Vung Tau provincial environmental protection fund: The loans with preferential interest rate of the Fund since its establishment and officially put into operation to date is shown as follows:

Table 10. Total numbers of projects funded by Ba Ria – Vung Tau provincial environmental protection fund

Unit: VND

Year	Companies	Loans	Instalment	Remaining
2006	Hòa Bình Rubber Company	1,000,000,000	1,000,000,000	0
	Tiến Đạt Company Ltd.	1,000,000,000	800,655,417	199,344,583
	Baseafood Company Ltd.	912,730,000	564,000,000	352,730,000
2007	Sông Xanh Company Ltd.	1,000,000,000	1,000,000,000	0
2008	Thịnh An Company Ltd.	500,000,000	243,356,850	256,643,150
2010	Phước An Company Ltd.	1,300,000,000	410,000,000	890,000,000
Total		5.412.730.000	3,442,000,000	1,698,717,733

Source: Reports of the Ba Ria – Vung Tau provincial environmental protection fund, 2011.

Currently, 100% of the wastewater treatment systems supported by the Fund for construction are working well and effectively. Treatment system operated by operating companies is checked regularly and strictly complying the legal provisions on the Law of environmental protection (waste registration, periodical monitoring reports...). The examination of deposit and debt collection to the present time shows no bad debt situation, the interest and principal due are collected and paid in full and the property mortgaged to the Fund are managed and used accordingly to the regulations.

Currently the Fund is conducting record review to submit to the Steering Committee for approval of the loans in the third quarter of 2011, including:

- The project to construct wastewater treatment system with capacity of 90 m³ day / night of Ha Duong Company Limited.
- The project to construct wastewater treatment system capacity of 300 m³ day / night of the Ba Ria - Vung Tau Tourism Corporation.
- The project to build waste treatment plant of Ngoc Bao Green Environment Company.

In addition to the organisations who have received financial supports from the Fund, there are other organisations that demand for loans, but no application for official support has been sent to the Fund. Through cooperation with the organisations, the Fund has guided the procedures, process loans, and advice on pollution treatment technologies suitable for the production... in order to speed up the complete loan procedures for submission.

Table 11. Projects funded in some selected areas

No	Funds	No. of projects	Total funds (VND)
1	Hà Nội Env. Protection Fund	13	59,438,000,000
2	Đồng Nai Env. Protection Fund	16	44,974,000,000
3	Bình Dương Env. Protection Fund	18	26,996,000,000
4	Vĩnh Phúc Env. Protection Fund	03	9,000,000,000
5	Lạng Sơn Env. Protection Fund	02	1,700,000,000
6	Bà Rịa - Vũng Tàu Env. Protection Fund	06	5,412,370,000

Source: Reports of the provincial environmental protection funds, 2011.

The analyses and synthesis of data reported by provincial environmental protection funds by the Institute for Environmental Management Studies completed in 2011 showed that, although there are now 17 provinces / cities with provincial environmental protection funds, but only 06 provincial environmental protection funds (as defined above) are eligible to conduct lending activities with preferential interest rates. Other provincial environmental protection funds have officially operated, but are in the process of completing the organisation and funding capital mobilisation.

b. Deposit receipt and management for environmental rehabilitation of mining activities

Besides lending with preferential interest rates, the provincial environmental protection funds have taken the responsibility of deposit receipt and management for environmental improvement and restoration in mineral exploitation activities. Situation of receiving and managing deposit for environmental improvement and restoration in mineral exploitation activities at the local level is shown in following Table.

Table 12. Mining projects with deposit for environmental remediation in local areas

No.	Funds	No. of Projects	Deposited fund
1	Hà Nội Env. Protection Fund	-	632,215,000
2	Lâm Đồng Env. Protection Fund	255	12,946,836,260
3	Vĩnh Phúc Env. Protection Fund	4	372,000,000
4	Sơn La Env. Protection Fund	83	3,890,000,000

No.	Funds	No. of Projects	Deposited fund
5	Lạng Sơn Env. Protection Fund	50	2,898,753,406
6	Thừa Thiên Huế Env. Protection Fund	-	2,755,582,235
7	Quảng Ninh Env. Protection Fund	19	10,097,073,129
8	Kiên Giang Env. Protection Fund	24	4,000,000,000
9	Bà Rịa – Vũng Tàu Env. Protection Fund	58	5,900,000,000
10	Hà Giang Env. Protection Fund	-	1,198,851,447
11	Bình Dương Env. Protection Fund	-	5,800,000,000
12	Thái Nguyên Env. Protection Fund	39	17,803,405,071

Source: Reports of the provincial environmental protection funds, 2011.

The results indicate that there have been many businesses put in deposit for environmental protection in mining activities. Deposits of enterprises contributed an important part of working capital funds of the provincial environmental protection fund. Compared with the additional financing to fund local environmental protection activities, this activity has achieved highly effective results. The additional funds from the environmental protection charges for wastewater, solid waste, penalties for violation of environmental protection activities... in some provinces have not been transferred to the provincial environmental protection funds.

c. Sponsor and co-financing for environmental protection activities

Only a few funds established relatively early and went into operation have a relatively large amount of working capital to ensure to meet the conditions for sponsor and co-finance for environmental protection activities. Specifically, the provincial environmental protection funds in Hanoi, Binh Duong, Ba Ria - Vung Tau, Thua Thien-Hue provinces. For other locations, the provincial environmental protection funds have been established, but in practice the Fund has not completed the organisational structure and operational mechanism, the majority of staff work on part-time basis. In addition, this model is relatively new for local areas, therefore securing operating capital is a difficult problem, resulting in late implementation of the funding activity for environmental protection projects.

Hanoi Environmental Protection Fund: in 2008, the Fund has funded the district and suburban districts the EM products and spray tanks with a contract worth 509 million to deal with environmental consequences after flooding, received and disbursed 2.1 billion to purchase lime and Cromin B for disinfection in flooded areas.

In 2009, through a number of specialized activities such as World Environment Day, the programme to limit the use of plastic bags... The Fund has funded 1.285 billion VND.

In 2010, celebrating the 1000th anniversary of Thang Long - Hanoi, the Fund participated in the organisation and funding for the programme "Hanoi, no plastic bags on Sunday " with co-funding of up to 2,100,000,000.

Binh Duong Environmental Protection Fund: In two years, the Fund also coordinated with the Environmental Protection Division to conduct promotional finance activities for the World Environment Day with a total funding of 98,293,000 VND (about 50,000,000 per year) from income for environmental protection charges for wastewater.

- in 2010, the Fund funded 1,500 hats and 1500 shirts with a budget of 49,893,000 VND.
- in 2011, the Fund funded 10 garbage bins and 4 collection vehicles with the cost of 48,400,000.

Hue Environmental Protection Fund: The Fund has received and distributed the fund from the Vietnam Environmental Protection Fund to deal with environmental consequences after Typhoon No. 9 to 6 districts: Phong Dien (45,000,000), Quang Dien (35 million VND), Huong Tra (20,000,000), Phu Vang (50,000,000), Huong Thuy (20,000,000), Phu Loc (30,000,000) with a total of 200,000,000 VND.

Ba Ria - Vung Tau Environmental Protection Fund: To raise public awareness on environmental protection, the Fund has focused on active deployment of funding for school facilities, high schools in the province to organize drawing contest on the subject of environmental protection, responding to the World Environment Day, coordinate with the provincial youth association to organise meetings to support the environmental clean-up campaign, planting trees... with total funding of 640,577,500 VND.

Table 13. Number of projects funded or con-financed by provincial environmental protection funds

No	Funds	Funded amount
1	Hà Nội Env. Protection Fund	5,994,000,000
2	Bình Dương Env. Protection Fund	98,293,000
3	Thừa Thiên Huế Env. Protection Fund	200,000,000
4	Bà Rịa - Vũng Tàu Env. Protection Fund	640,577,500

Source: Reports of the provincial environmental protection funds, 2011.

d. Other activities

Besides the main activity in providing loans at preferential interest rates, deposit received for environmental rehabilitation in mining activities, sponsor and co-financing, the Fund also supported local environmental protection programmes and other activities aiming at improving community awareness on environmental protection, cooperation with other organisations to maintain the operation of a financial institution for the environment in a sustainable manner.

Currently only Ba Ria - Vung Tau environmental protection fund implemented activities to support loan rate with the amount of 6,000,000,000 VND.

In addition to receiving and managing funds from the state budget, some provincial environmental protection funds also receive and manage funds from:

- Charges for environmental protection such as Binh Duong provincial environmental protection fund receives 1.5 billion VND, Ba Ria - Vung Tau provincial environmental protection fund receives 10.4 billion VND.
- To receive funding from the organisations for environmental protection activities such as Hanoi Environmental Protection Fund received 977.5 million from the enterprises; Hue provincial environmental protection fund received 200 million from the Vietnam Environmental Protection Fund for financing environmental remediation in the aftermath of the storm No.9 in 2009.
- Compensation for damage caused by oil spills: Ba Ria - Vung Tau provincial environmental protection fund receives 50 billion VND.

4.4 Advantages and disadvantages of provincial environmental protection funds

a. Advantages

- Provincial environmental protection funds have always received the interest and support and well facilitated by the Provincial Party Committee, People's Committee in the provinces. Therefore, the Fund's organisational structure was consolidated for early operation under the administration of the Fund Management Council to include members as leaders of the Departments of Natural Resources and Environment, Finance, Planning and Investment, Science and Technology, provincial State Bank.
- There is a guaranteed charter capital from the state budget and other sources. The increase in charter capital of the Fund as well as raising the magnitude of investment and financing for the project approved by the Provincial People's Committee.
- Some provincial environmental protection funds have been established after learning experience of the conditions of operation of Vietnam Environmental

Protection Fund and other provincial environmental protection funds established earlier.

- Most businesses with loans from provincial environmental protection funds have used the approved fund appropriately according to the purpose and repaid the principal in full and on time.

b. The problems, obstacles and gaps

Besides the advantages mentioned above, in the process of provincial environmental protection funds also encountered certain difficulties:

Lack of legal framework as the basis for the organisation and operation charter of the provincial environmental protection funds. There is no common management model specified for the provincial environmental protection funds, leading to difficult situation in building the organisation and operation, management regulations and financial regulations to support financial operations...

Regarding the organisational structure: The standing members of staff of the provincial environmental protection funds are currently working on part-time basis, lack of professional staff.

On operating capital:

- At present the provincial environmental protection funds' operating capital is relatively modest fund and not able to meet the borrowing needs of organisations and enterprises to invest in environmental protection works in the province, especially the proposed project for large capital.
- Regarding the granting of the charter capital, there are currently no law provisions of the charter capital which can be deducted from any funds of the state budget, resulting in annual additional capital is not issued on time.
- In some provinces such as Son La, Hue... the provincial environmental protection funds are now only operating to accept and manage deposits for environmental recovery in mining activity, the rest of the environmental protection charges for wastewater, solid waste and fines for administrative violations in environmental protection... have not been regulated to the provincial environmental protection funds.

For financing activities:

- Some of the projects when establishing business loan applications have not studied the conditions for loans, therefore during the evaluation process there exists some unsatisfactory documents due to projects not eligible for loans (not in service of environmental protection) and financial capability is not guaranteed and do not have deposits or loan guarantee... That leads to longer time for the evaluation of

loan applications, affecting to the Fund's activities to provide loans to other projects eligible for loans.

- A number of organisations or individuals without deposits, small businesses with primary assets in the form of buildings, land mortgaged for a bank business loans, therefore the loan application is not eligible for the loans from provincial environmental protection funds. A number of organisations proposed loan deposit inconsistent with the provisions of mortgage assets which have low liquidity, such as production lines, trucks and tractors; or mortgage assets formed from high-risk loans.
- Borrowers from the provincial environmental protection funds can be productions and processing of aquatic products (in Ba Ria - Vung Tau) which are temporarily planned, so the business and construction permit is licensed for a maximum of 3 years. To date, the State has not planned the specialised areas for seafood processing business to enable businesses to focus on the initiative for production and processing. This is a problem for the fish processing companies causing serious environmental pollutions, eligible for loans from provincial environmental protection funds but with high risks that the production and processing companies may have to move and terminate the business. On the other hand, because these companies do not have a construction permit or a temporary construction permit, they should not be accepted for the loan from provincial environmental protection funds.

4.5 Relationships between VEPF and provincial environmental protection funds

4.5.1 Cooperation mechanisms between VEPF and provincial environmental protection funds

Cooperation mechanism between Vietnam Environmental Protection and provincial environmental protection funds is prescribed in the Decision No. 35/2008/QĐ-TTg dated March 03, 2008 of the Prime Minister on the organisation and operation of Vietnam Environmental Protection Fund. Specifically, Clause 3, Article 4 of the Decision stipulates: "Co-financing, loans for environmental projects in accordance with criteria and functions of the Vietnam Environmental Protection Fund for the financial institutions in the country and abroad, the Global Environment Fund (GEF), the Fund's foreign partners, the provincial environmental protection funds' activities in accordance with law".

In pursuant of the above Decision, the Vietnam Environmental Protection Fund and provincial environmental protection funds can co-finance, provide loans for environmental projects in accordance with criteria and functions of the Fund.

In addition, the Vietnam Environmental Protection Fund and provincial environmental protection funds may have close coordination in the field of professional expertise. The Vietnam Environmental Protection Fund can support to the provincial environmental protection funds in various areas of operation, mainly in the work of

professional services such as consulting, learning experience in the construction of the organisation and development activities, financial management regulations.

The Vietnam Environmental Protection Fund's annual organisational meeting with the provincial environmental protection funds and the production and business enterprises in the provinces / cities throughout the country who need soft loans from the Vietnam Environmental Protection Fund. This is an opportunity for the provincial environmental protection funds to exchange experience to improve professional skills and help organisations and individuals to gain access to capital sources.

The Vietnam Environmental Protection Fund has established local networks for further cooperation. The provincial environmental protection funds established early can support other provincial environmental protection funds on the work experience and activities for the establishment of the Fund.

4.5.2 The problems, obstacles and gaps

- There are no specific regulations on the classification of borrowers between central and local funds.
- During the operation of the Vietnam Environmental Protection Fund, loans for projects in local businesses were made, but the Vietnam Environmental Protection Fund and provincial environmental protection funds have not exchanged information on this type of business. Therefore it leads to difficulties in the management of targets in need of financial support from provincial environmental protection funds.
- During the operation, various emerging issues need to be consulted but provincial environmental protection funds do not know the professional contacts for instructions and advice.

4.6 Viewpoints of the business sector to VEPF and provincial environmental protection funds

To assess the prevalence and the operation of Vietnam Environmental Protection Fund and the provincial environmental protection funds, on May 8, 2011, the Institute of Science for Environmental Management has conducted research, investigation and survey of the businesses in the local area.

Total number of questionnaires provided to the enterprises in the province / city is 545 questionnaires, the questionnaires obtained were 65, the response rate is 11.9%. Out of the response from the business, 14% have received financial support from the Fund.

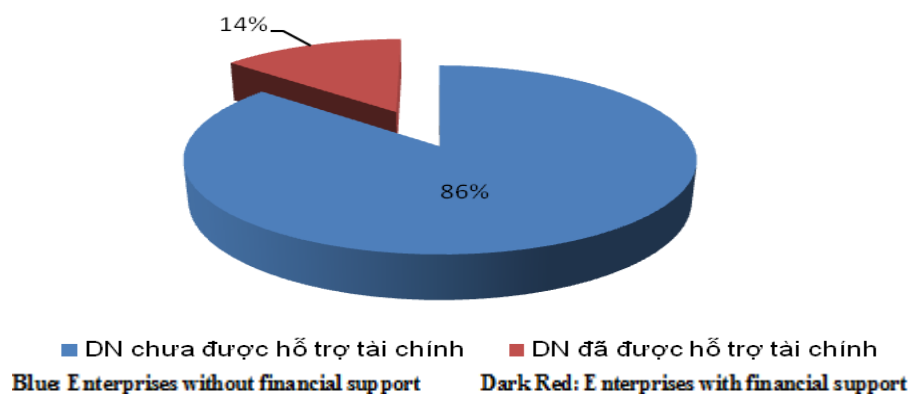


Figure 9. Business enterprises receiving the fund from VEPF or provincial environmental protection funds

Questionnaires were distributed to the businesses of different and diversified types of production: the state-owned enterprises, cooperatives, private, partnership, limited companies, joint stock company, 100% foreign capital and joint ventures. The number of questionnaires collected mainly in five major types of enterprise: joint stock companies (accounting for 65.1%), limited companies (14.8%), enterprises with 100% foreign capital (accounting for 8.2%), state-owned enterprises (7%) and joint stock companies with 50% state (4.9%).

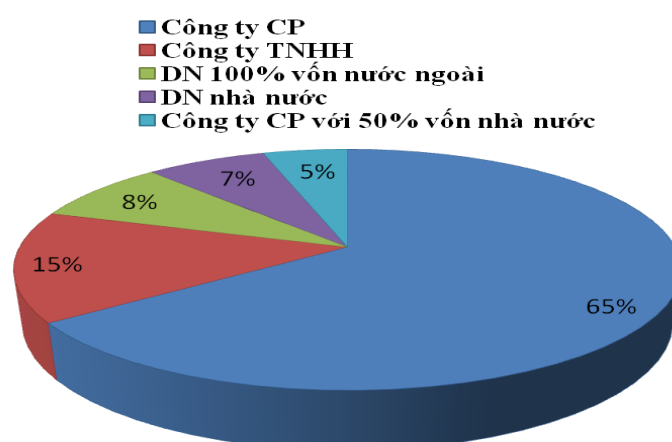


Figure 10 note: Green: enterprises; dark orange: Limited Companies; bananablue: international companies; violet: state companies; blue: half of capital state companies

Figure 10. Types of companies surveyed

The surveyed businesses are in many different industries, including manufacturing and food processing, construction materials production, mining, paper, packaging, engineering, metallurgy... The financial support is critical for the food manufacturing industry, construction material production, fish processing, mining and rubber and steel manufacturing.

Among the surveyed enterprises, 43.8% of enterprises are small and medium-sized (under Decree No. 90/2001/ND-CP dated November 23, 2001 which stipulated the

average number of employees of business not more than 300 employees to be classified as small and medium) and 56.2% of large enterprises (over 300 employees).

There are 76.2% of businesses wishing to access resources from the Vietnam Environmental Protection Fund and provincial environmental protection fund. 23.8% of the remaining companies do not need this. The reason businesses do not need preferential access to capital because businesses do not have the programmes and projects related to environmental protection or other investment projects on the environmental protection is relatively small scale, simple and low-investment which the enterprises can balance their financial cost to themselves. Another reason is the enterprises are not aware of incentives from the fund for environmental protection.

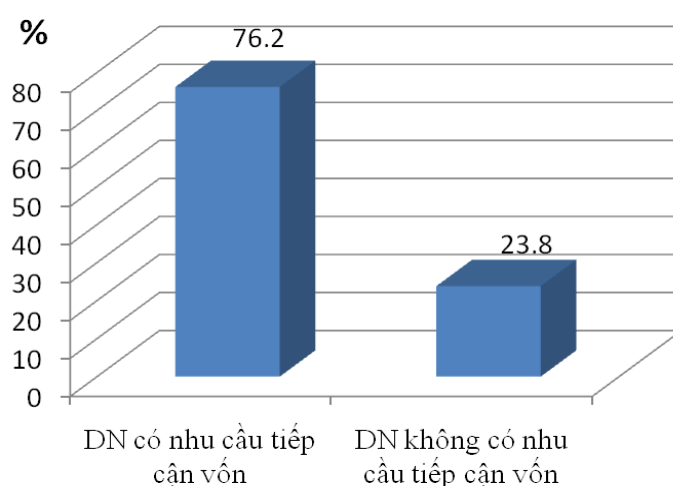


Figure 11 note: 76.2% enterprises with the need of capital; 23.8% enterprises without the need of capital

Figure 11. Business enterprises needs assessment

Survey data show that businesses do not have much information about the Vietnam Environmental Protection Fund. There are 47.6% of businesses know briefly about the Fund's financial support, 27% of enterprises know quite well, and 25.4% knew nothing of the forms of support.

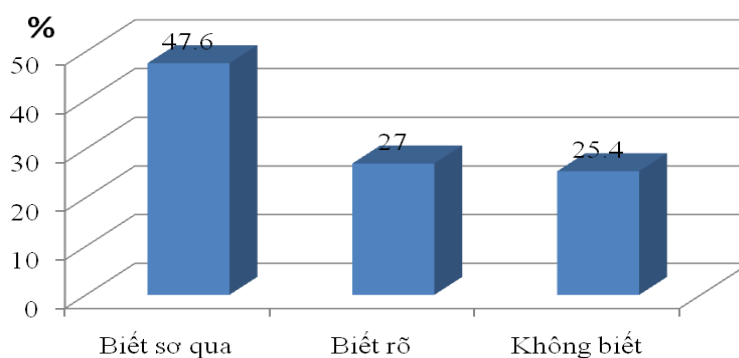


Figure 12 note: 47.6% with basic known; 27% with clearly known; 25.4% without knowing

Figure 12. Popularity of Vietnam Environmental Protection Fund

For the enterprise who do not know the Fund's financial support, most of them collected information or referrals from friends and partners (30%), the website accounted for 26%, through the press, newspapers accounted for 18% and 14% of businesses know of the Fund through the mass media as television, radio. 26% of businesses known of financial support of the Vietnam Environmental Protection Fund through the conference organised by the Departments of Natural Resources and Environment or provincial environmental protection funds to introduce and disseminate guidance.

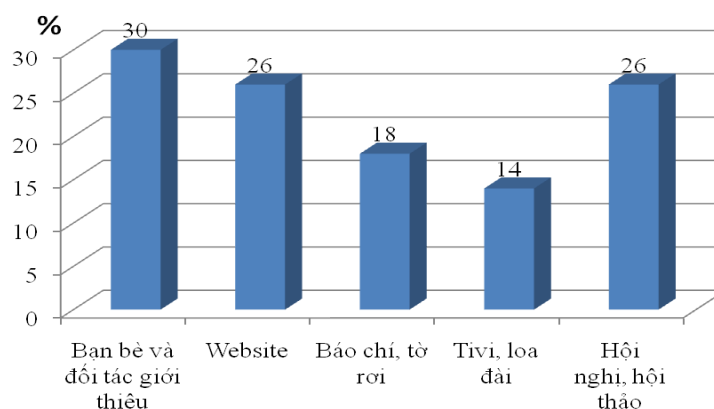


Figure 13 note: 30% introduction from friends and counterpart; 26% from website; 18% from newspapers, booklets; 14% from TV, broadcast; 26% from workshops and meetings

Figure 13. Forms of public relations of Vietnam Environmental Protection Fund and business sector

Most businesses revealed that the establishment of provincial environmental protection fund is necessary. Specifically: 63.6% businesses shows that it is necessary, 27.3% shows that it is highly necessary while only 9.1% shows that there is no necessity to establish the Fund.

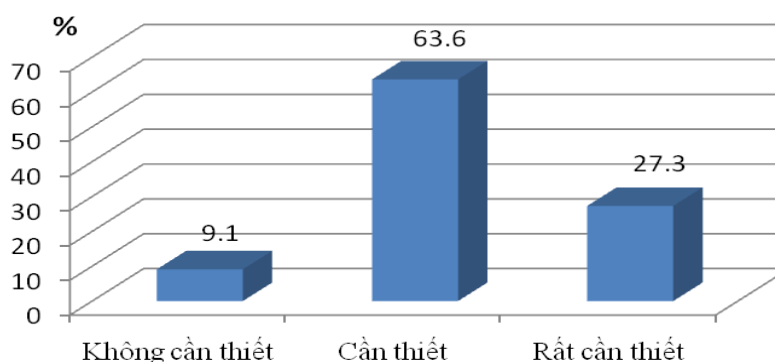


Figure 14 note: 9.1% without neccessary; 63.6% with neccessary; 24.7% very neccessary

Figure 14. Need assessment for the establishment of environmental protection funds

In order to receive financial support from the Vietnam Environmental Protection Fund and provincial environmental protection funds, local businesses need to apply for financial support. Among the business survey's responses, most businesses have not filed

any application (up 76.2%), 22.2% of businesses filing once and 2% of businesses had applied for support several times. Most business feedback said the main reason leading to the unprecedented enterprise applying for financial assistance in the Fund is that in some provinces, new provincial environmental protection fund established was not introduced to the enterprises, therefore the businesses do not know of this source of financial support.

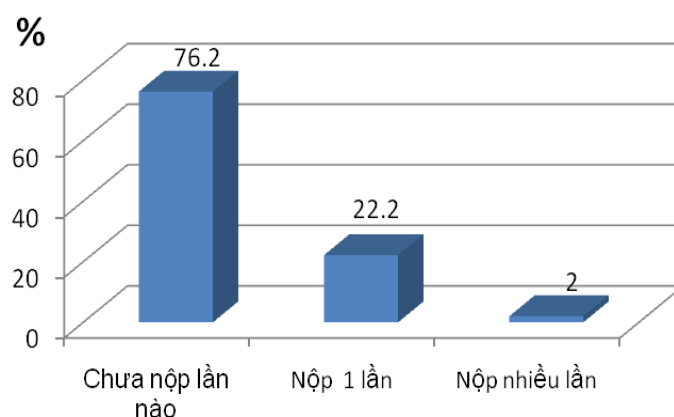


Figure 15 note 76,2% never submit; 22.2% submit once; 2% submit many times

Figure 15. Enterprises submitted application for funds

Among the businesses that have applied for financial assistance from the Vietnam Environmental Protection Fund, 66.7% of businesses filing to the Vietnam Environmental Protection Fund, 20% of businesses filing for provincial environmental protection funds and 13.3% of the enterprises submitted dossiers to both.

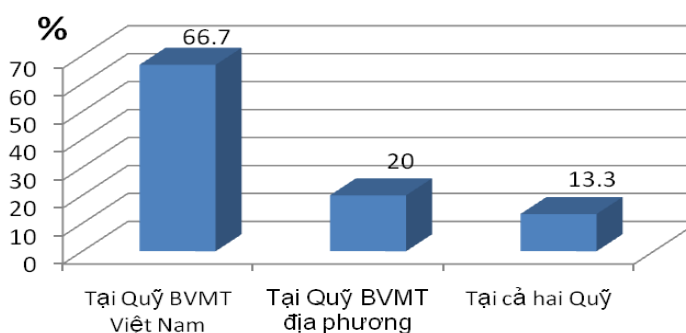


Figure 16 note 66.7% from Vietnam Environmental Fund; 20% from Local Environmental Fund; 13.3% from both fund

Figure 16. Enterprises submitted applications to Vietnam Environmental Protection Fund and local environmental funds or both

Through the process of applying for financial assistance, each business has evaluated the ease of access to both the preferential capital as follows: 84.4% of businesses said that preferential access to capital of the provincial environmental protection funds is better than the Vietnam Environmental Protection Fund. The main reason is that the number of enterprises applying for financial aid for environmental protection in the Vietnam Environmental Protection Fund is many times larger than the

number of applications in provincial environmental protection funds. This leads to the evaluation process, approval, and granting financial assistance for environmental projects at the Vietnam Environmental Protection Fund take longer than the duration of evaluation at the provincial environmental protection funds.

4.6.1 For the enterprises have not received financial support

The reason businesses have not received financial support from the Fund is as follows: 23.5% of businesses do not meet the conditions according to specified criteria; 23.5% of businesses do not guarantee or deposit to invest accordingly to schedule determined by loan proposal; 17.6% of businesses did not meet the conditions for legal capacity, civil responsibility under the regulations; 17.6% of businesses fail to meet the implementation of regulations on loan security. In addition, there are some other reasons that businesses do not meet the requirement such as the investors' project has completed the procedures for investment and construction in accordance with the law on investment management and construction documents; the loan application has been assessed and approved before; the financial capacity and repayment capability commitments of 5.9%.

Despite the difficulties mentioned above, 68% of businesses still need to apply for loans from the Vietnam Environmental Protection Fund and provincial environmental protection funds. Only 32% of businesses do not continue to apply for loans from the Fund. The reason these companies do not have need for financial support and are able to deal with requirement for environmental protection, or have invested a good pollution treatment system. In the future, the demand for a loan of the majority of businesses (68%) showed that environmental protection funds still hold an important role in financial support for the business.

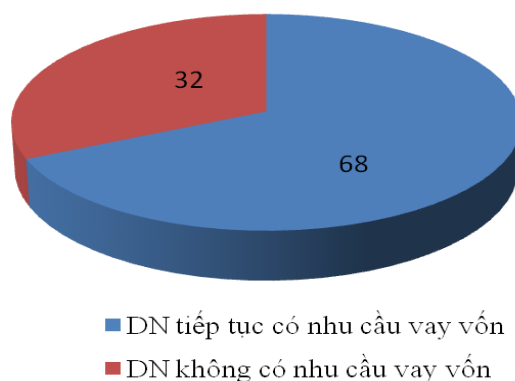


Figure 17 note Blue: enterprises with capital need; dark orange: enterprises with out capital need

Figure 17. Need for loans from business enterprises

4.6.2 For businesses that have received financial support

The purpose of business loans in the Vietnam Environmental Protection Fund and provincial environmental protection funds is mainly to invest in the construction, maintenance, maintenance of sewage, air pollutant treatment; installation of hazardous waste incinerators; dust purification system. From the forms of financial assistance of the Fund, 100% of enterprises are provided with preferential interest rate loans, no business

that received lending support or funding from the Vietnam Environmental Protection Fund and provincial environmental protection funds. Companies receiving financial support from the Vietnam Environmental Protection Fund are typically 1 to 2 times with the loan amount from 500 million to over 13 billion.

The businesses received support loans from the Fund usually have to apply for financial support for one or several times. The number of businesses filing once is 89% of enterprises, 11% of businesses to file three times. Thus, the majority of businesses (89%) have received financial support in the initial filing.

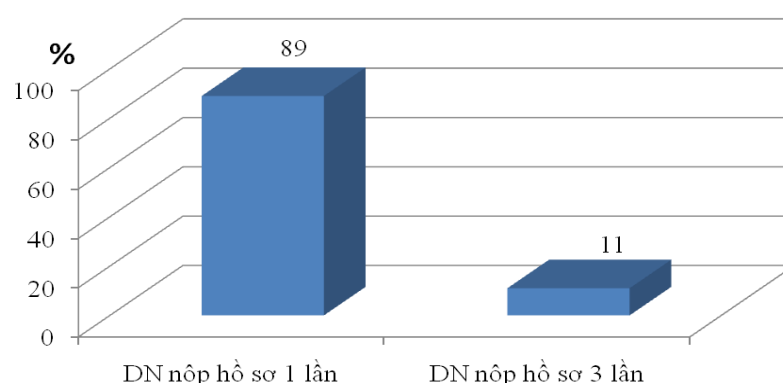


Figure 18 note: 89% enterprises submit once; 11% enterprises submit 3 times

Figure 18. Number of applications from enterprises

On the evaluation duration of the loan documents at the Vietnam Environmental Protection Fund and provincial environmental protection funds, 77.8% of businesses rated as moderate and 22.2% of businesses showed that it took a longer time than expected while no business showed that the evaluation duration is too long.

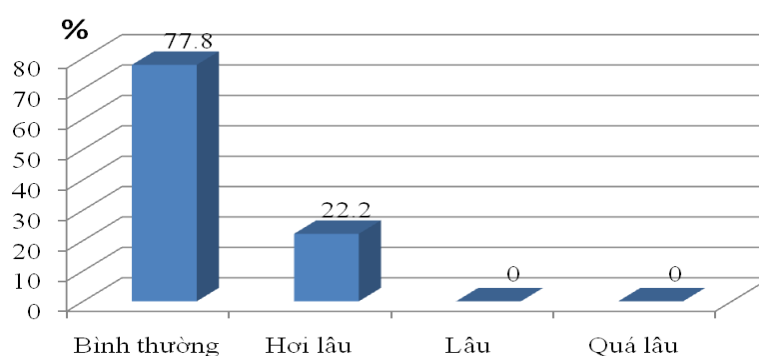


Figure 19 note: 77,8% normal; 22.2% rather late; 0% late; 0 % too late

Figure 19. Assessment of duration for application reviews

On the lending procedures from the Fund, 66.7% of businesses rated as normal and 33.3% of businesses rated as complex. No business regarded the procedures as simple.

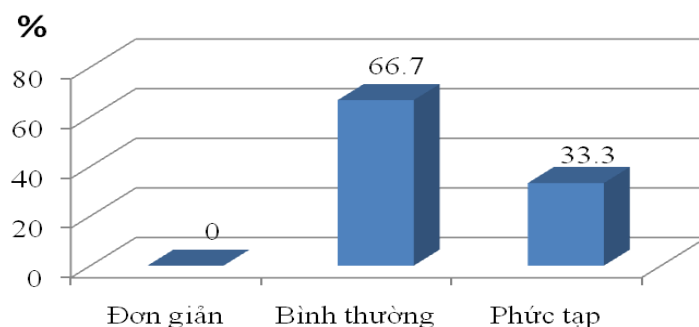


Figure 20 note: 0 % simple; 66.7 % normal; 33.3% complicated

Figure 20. Assessment of loan procedure at VEPF

With interest rates as at present, most enterprises (accounting for 44.4%) rated as high, 33 companies (33.3%) rated as low, the few remaining 22.3% of businesses rated as normal. There are no businesses rated the current interest rate too high.

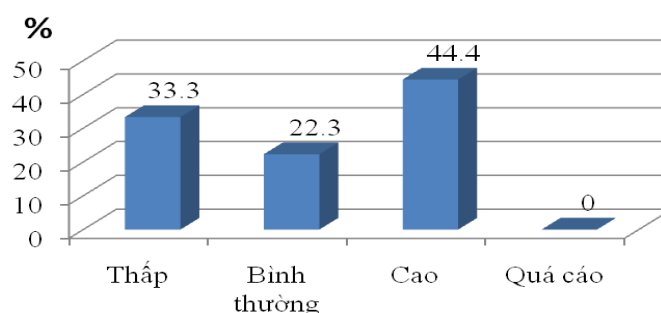


Figure 21 note: 33.3 low; 22.3 normal; 44,4 high; 0 too high

Figure 21. Assessment of loan interest at Vietnam Environmental Protection Fund

Most enterprises (accounting for 55.6%) rated the Fund's lending term is normal, 33.3% of businesses said that short-term. A small number of firms (11.1%) assessed that the current period is long and no business rated as too long.

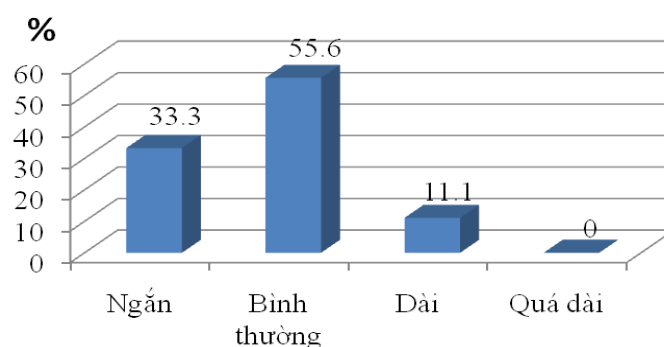


Figure 22 note: 33,3 % short; 55,6 % normal; 11,1 % late; 0% too late

Figure 22. Assessment of loan duration from Vietnam Environmental Protection Fund

In the operation mode and staff's attitude of the Fund, 66.7% of businesses rated as normal, 33.3% said that staff attitude and morale are good. There are no businesses evaluated staff attitude is not good.

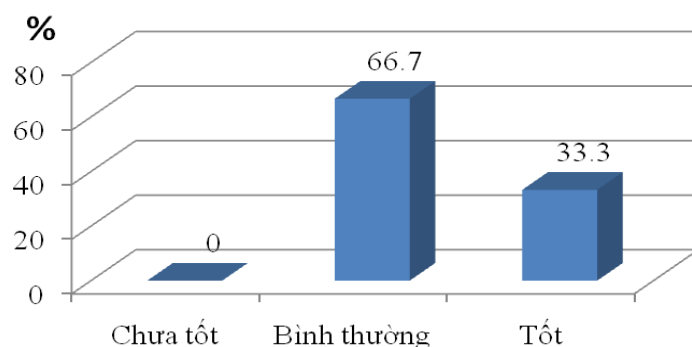


Figure note: 0 % bad 66.7% normal; 33.3 % good

Figure 23. Assessment of staff behaviours and attitudes at Vietnam Environmental Protection Fund

As for the access to the capital of the Fund, in the opinion of the businesses, the Fund should strengthen guidance on the procedures for business loans; adjust interest rates and increase the dissemination of information to businesses (55.6% of the enterprises proposed these solutions) while other businesses (44.4%) proposed to increase the lending period.

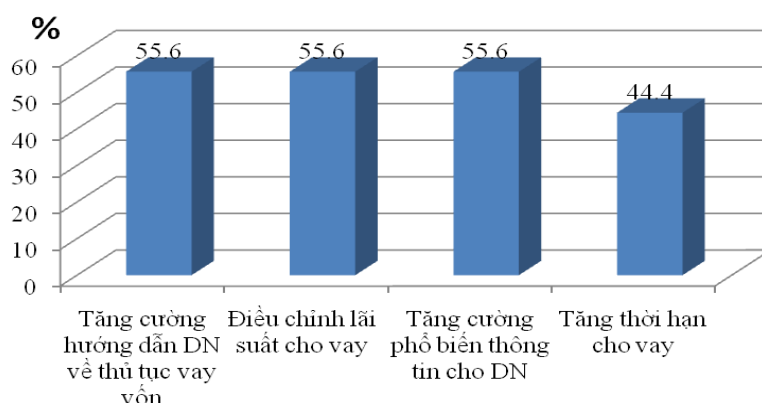


Figure note: 55.6% strengthening the guideline for loan; 55.6% adjusting the bank interest; 55.6% strengthening information to enterprises; 44.4% increase the loan period

Figure 24. Comments to support enterprises to access funds from Vietnam Environmental Protection Fund

5 REQUIREMENTS AND OPTIONS TO IMPROVE OPERATIONAL EFFICIENCY OF VIETNAM ENVIRONMENTAL PROTECTION FUND

5.1 Requirements

- To strengthen the environmental protection fund system from central to local levels, to clarify the functions and mandates of the funds to enhance the operational capacity to meet the requirements set forth for environmental protection works in the processes of industrialization and modernization of the country.

Currently, the environmental protection funds in Vietnam are operated as public funds, not as a mechanism of financial or credit institution. Therefore, there is a need to

develop regulations on operation of the fund as financial institutions with specific activities in the field of environmental protection as not-for-profit organisations. It is also essential to expand the scale and scope of the fund system, overcome the overlapping and duplication in functions between central and local funds. Currently, conversion of administrative mechanisms which are considered as bureaucratic and subsidy mechanisms to effective management system based on the principles of market economy. Further, flexible conditions need to be established for the Environmental Protection Fund to promote local initiatives, creativity in the work of environmental protection, in accordance with the specific circumstances of each region.

- Identify clear priorities to guide the operation efficiency of the allocation of funding support; transparency and disclosure of information to build credibility and trust.

In general, Environmental Protection Funds in Vietnam have completed the major tasks outlined in performing the economic policies in the field of natural resources and environmental protection accordingly to the State and Party Committee. However, the lack of fund objectives and long-term vision, specific priorities need further attentions. Funding should be provided to the key priorities in the field of pollution control. Therefore, the funds must have a plan and vision, which is the basis for establishing priorities and to define the purpose and nature of activities and projects. In addition, the fund must also include the evaluation criteria and objective selection of priority projects and those entitled to financial assistance from the fund. Transparency is also an essential condition to ensure robust and long-term operation.

- To promote the socialization of environmental protection, maximum mobilization and diversification of investment resources to increase capital input for environmental protection funds.

Over the course of operation, the Environmental Protection Funds in Vietnam have received functioning capital from the state budget, funding sources, contributions, trusts and performed financial supports for environmental protection activities throughout the country. In the future, funds must be leveraged to mobilize other sources of capital by increasing the quality of operations, financial resources, promote international cooperation, and call for greater exploitation of resources. For specific programs or projects, the funds need to raise sponsorship or co-financing from other sources through methods which prescribe percentage limit on the maximum level of funding that the fund can support. Establishment of close relationship between the central and local level to support each other in the provision of business information, monitoring, inspection and supervision of environmental protection projects is also vital towards effective system.

- Setting appropriate steps to the trend of development paths of countries in the world.

Vietnam's economy is gradually being integrated into the world economy. In such conditions, Environmental Protection Funds in Vietnam need to have the proper route to meet environmental requirements while ensuring the economic and social sustainability.

To do this, the fund should continue to expand bilateral relations and multilateral cooperation strategies in order to study the experience in strengthening the professional capacity, efficient capital management and minimizing investment risks. In addition, the funding for developing countries in environmental protection activities from developed countries are getting more focused and intensified. Therefore, the fund should take advantages of mobilizing foreign capital in different forms, including loans of Official Development Assistance (ODA) and Foreign Direct Investment (FDI) for the natural resources and environmental sector and to ensure the capital for long-term performance and system stability of the Environmental Protection Funds in Vietnam.

5.2 The solution

- Redefining the state management function of finance of Vietnam Environmental Protection Fund by the Ministry of Finance and Ministry of Natural Resources and Environment as there is currently no clear regulation on the financial mechanism for the Fund. Vietnam Environmental Protection Fund is an agency under the Ministry of Natural Resources and Environment and subject to financial management of the Ministry of Finance. However, when developing the annual planning, the Fund requests for additional funds from the state budget for funding activities and tasks assigned by the Ministry of Natural Resources and Environment to supplement for the operating capital but it could not be accepted due to the Fund is not subject to budget allocation under MONRE. Therefore it is a significant difficulty for the Fund in carrying out the procedures for receiving budget and settlement of funds according to its works ... and the executive agencies operating in the business.

- To increase the charter capital from the state budget to the environmental protection fund to promote operational efficiency. Additional operating funds for public services from the environment for the Fund.

- To enhance the economic policy of natural resources and environmental sector and strengthen economic tools to generate revenue for the fund (fee / tax), namely:

Develop and issue mechanisms for fund activities for environmental protection in Vietnam to meet the practical requirements of environmental protection investment at national scale.

Issued a Decree on emission fees, park entrance fees ... and add a list of tax payers in the newly issued Law of Environment Tax. Effective implementation of the Decree No. 67/2011/ND-CP on Aug. 8, 2011 of the Government detailing and guiding the implementation of some articles of the Law on Environment Tax and the Circular No. 152/2011/TT -BTC November 11, 2011 of Ministry of Finance guiding the implementation of the Decree No. 67/2011/ND-CP on Aug. 8, 2011 of the Government detailing and guiding the implementation of some articles of Law on Environmental Tax.

Implementation of the regulations on management and use of environmental charges under the Article 1 of the Decree 26/2010/ND-CP dated March 22, 2010 of the

Government on amendment and supplement of the Clause 2 of the Article 8 of the Decree No. 67/2003/ND-CP dated June 13, 2003 of the Government on environmental protection charges for wastewater; the Article 7 of the Decree No. 174/2007/ND-CP dated November 29, 2007 of the Government on environmental protection charge for solid waste and the Article 5 of the Decree No. 74/2011/ND-CP dated August 25, 2011 of the Government on environmental protection charges for mineral exploitation and the Circular guiding the implementation of the Decree.

Fees and fines from administrative violations in the field of environmental protection need to be filed and allocated in full to the Environmental Protection Funds as prescribed in Paragraph 3 of the Article 47 of the Decree 117/2009/ND-CP on handling of law violations in the field environmental protection and Point b, Clause 1, Point b, Clause 2 of Article 4 of Circular No. 197/2010/TTLT-BTC-BTNMT dated December 8, 2010 of Ministry of Finance and Ministry of Natural Resources and Environment guiding the collection and payment of fines, management and use of fines from the sanctioning of administrative violations in the field of environmental protection. Currently, a portion of the compensation of environmental damage and administrative penalties is paid to the central budget, but there is no specific guidance to regulate these funds to the fund.

- Develop and issue guidelines and regulations for organizations and individuals who have made environmental improvement and restoration under the Circular No. 126/1999/TTLT-BTC-BCN-BKHCNMT dated October 22, 1999 on the transfer of fund deposited at the credit institutions to the Vietnam Environmental Protection Fund or the provincial environmental protection funds. Also, there is need for the provisions of penalties for institutions and individuals delaying additional collateral as prescribed in the Clause 4, Article 9 of Decision No. 71/2008/QD-TTg dated May 29, 2008 by Prime Minister.

- Agree to support the activities of the Steering Committee to implement the UNFCCC and the Kyoto Protocol under the Decision No. 130/2007/QD-TTg dated August 02/, 2007 by the Prime Minister on a number of mechanisms and financial policies for investment projects under the clean development mechanism and the Circular 58/2008/TTLT-BTC-BTNMT dated July 4, 2008 of the Ministry of Finance and Ministry of Natural Resources and Environment guiding the implementation of a provisions of the Decision No. 130/2007/QD-TTg dated August 2, 2007 of the Prime Minister with the Decision No. 1916/QD-BTNMT dated November 27, 2007 of the Minister of Natural Resources and Environment on the regulations of the budget of Steering Committee on the implementation of the UNFCCC and the Kyoto Protocol.

- Complete the legal system regarding the policies and activities of the fund, renew mechanisms and policies in financing activities to attract targets with the needs to invest in environmental protection field.

- Adjust the interest rate applicable for the targets with investment loans for environmental protection, and review the time period of a preferential interest rate throughout the loan term.

- CDM project management:

+ Develop and issue guidance for authorizing the registration of CERs and penalties for CDM project investors violating the regulations on registration of CERs, declaration and fees for sale / transfer of CERs.

+ Clearly define the price of CERs calculated based on market price at the time of sale (under Decision No. 130/2007/QĐ-TTg dated August 02, 2007) or pursuant to the contract price (Circular No. 04/7/2008 dated 58/2008/TTLT-BTC-BTNMT).

- Issue legal documents to define the relationship between Vietnam Environmental Protection Fund and the state management agencies: clearly define the responsibilities of the ministries directly related to the organization and operation the Fund to avoid the duplication in dealing with settlement issues of state management in the operations of the Fund.

- Issue written regulations on the coordination between Vietnam and the Environmental Protection Fund and provincial environmental protection funds in order to create linkages in the areas of activities and help the newly established provincial funds in developing their organization and operation, especially when implementing the operations and optimizing capacity on each side.

- Promulgate regulations on the coordination between the Vietnam Environmental Protection Fund and provincial environmental protection funds.

- Promulgate regulations on the mechanism of periodic reports on operating results of the Environmental Protection Funds and constantly update and correct information and details on funding and performance of the fund.

- Strengthen inspection, examination, and increasing the participation of the community.

- Simplify the administrative procedures (loan procedures and document review...) and publicize the activities of the fund to ensure transparency and fairness to all investors wishing to receive financial support.

- The loan conditions (Decision No. 24/QĐ-HĐQL on January 12, 2004 promulgating the Regulation on lending with preferential interest rates, loan interest support, funding and financing of the Vietnam Environmental Protection Fund) to ensure reciprocal of the investment accordingly to the planned schedule; collateral or third party guarantee ... the conditions are relatively high for many targets who are having with environmental issues, financial difficulties but there is no collateral for loans or loan guarantee, leading to urgent needs for environmental protection but also difficulties to access to large funds for environmental protection. Such cases need to have preferential conditions in order to create easy access to more sources of financial support.

- Report to the competent authorities on demand for working capital and additional capital grant funds from the operation of the State budget and ODA sources as required.

- Attract other funds other than funds from the state budget and search for loans, financial assistance and support from foreign organizations for environmental protection activities; call for voluntary contributions from organizations and individuals willing to work on environmental protection ...

- Effective management and use of capital:

- + *Strengthen and improve the efficiency of the loans with preferential interest rates:* with customized forms preferential interest rate, term, loan; further study supplement and perfect the rules processing, business process credit.

- + *Diversify forms of financial supports:* external form of financial assistance or loans with preferential interest rates, the fund should focus on promoting other forms of financial assistance such as funding and financing, insurance...

- + *Expand the scope of the Environmental Protection Funds:* In addition to promoting other forms of financial assistance, the Vietnam Environmental Protection Fund needs to expand the scope of activities in the areas such as strengthening the collateral receiving for environmental remediation in the mining operation; registration, transfer or sell of certificates of greenhouse gas emission reductions (CERs) ...

- Guarantee for enterprises to borrow capital for environmental protection from an organization or individual.

- Enhance the training and fostering to improve professional level. The fund should actively plan, train and retrain members of staff to enhance the capacity to meet the increasing requirements of the enterprise in the evaluation of loan application, shorten time to consider and approving loans from the fund. Especially in Vietnam now there is university of natural resources and environment who can focus on training staff for the environmental sectors in general and the Environmental Protection Fund in particular. At the same time, the fund should also develop a mechanism to attract, recruit more staff with qualified professional qualifications on the environmental sector and financial sector. In addition, there is a need to improve work ethics and professional responsibility for each VEPF staff.

- In addition to financial support, providing funding for those in need, the fund should improve the financial capacity to maintain business sustainability of environment protection activities and direct the enterprise to access to cleaner production technologies ...

- Focus on a number of subjects: the common goods, serious pollution and outdated technologies.

- Control of project loans to avoid targets receiving financial support from loans but use for improper purposes, the fund should manage and closely monitor the compliance with agreed requirements to the business. For targets knowingly use sources of financial support for improper purposes, there should be sanctions or suspension of loan.

- Multiply the model to the local environmental protection funds to reduce the burden of the Vietnam Environmental Protection Fund and ensure the management and monitoring more closely at the local level.

- Establish a common electronic portal for the Environmental Protection Funds, regularly update the results on periodical report of the fund and lessons learned to improve efficiency. Development of information database on financial supports from the Environmental Protection Fund; the businesses who have been borrowing from the Fund ... to avoid duplications in several different funds.

- Promote the dissemination of information from the Environmental Protection Funds to the relevant audience through media channels, television, publishing documents, brochures ...

- Set up a list of environmental protection projects who received financial support with clear criteria to avoid fragmentation of financial support objects.

- Establish business consulting unit to help ease access to funding support, integrate popular propaganda of funds to businesses in the process of liquidation and detection of environmental pollution problems.

- Promote development cooperation with the fund and other organizations throughout the world towards a green world, clean and beautiful.

- The Vietnam Environmental Protection Fund needs to guide and exchange experiences and help local environmental protection funds in developing professional models, methods and operations.

- Submission to the competent authority to issue documents guiding framework for organizations to funds' activities to build a general model for all of the Environmental Protection Funds.

- For private funds: issue written permits for the private environmental protection funds according to regulations to encourage institutions and individuals to mobilize investment for environmental protection; ensure that Vietnam Environmental Protection Fund's activities and those of private funds are equal; there should be regulations on the commendation of organizations and individuals who have contributed funds for the Environmental Protection Fund.

- Additional ordinances and administrative sanctions on the environment (Decree No. 117/2009/ND-CP on handling of law violations in the field of environmental protection) of the environmental protection funds sanctions who deliberately delay the evaluation, approval and loan documents for the financial support for businesses satisfying the conditions and lending criteria as published.

5.3 Development trends in Vietnam Environmental Protection Fund

Vietnam is a socialist country with strict management from the State, based on the current status of the fund for environmental protection activities in Vietnam and experience in the development model of environmental funds in a number of countries around the world, the system of the Vietnam Environmental Protection Fund in the future orientation can model various types of funds, such as: national fund for environmental protection and local private funds for environmental protection. Currently, there are two types of funds: the National Fund for Environmental Protection and local environmental protection funds. However, to match the orientation of the future there is a need to improve the functions, tasks and activities of the two mechanisms and also to build the legal basis for the establishment and putting into operation of private funds to contribute to environmental protection and increase investment, support for activities, and projects in the field of environmental protection.

For the National and local funds for environmental protection

The National and local environmental protection fund and two types of funds with funds allocated from the state budget and organizational structure operated under the direct management of the State. The existence of these two type of funds play an important role in performing the state management on environmental protection, support the implementation of State policies in the field of environmental protection effectively. In the future, to improve the performance of these two type of funds there is need to carry out innovative organizational structures, management apparatus, methods and operational procedures to maximize efficiency and enhance optimal coordination between national and local levels.

It is also essential to simplify the procedures and create unity to avoid cumbersome in implementation stages, the national environmental protection fund will remain under the Ministry of Natural Resources and Environment, but the local environmental protection funds will managed directly under the administration of the Department of Natural Resources and Environment.

In addition, the Vietnam Environmental Protection Fund in the future will aim to implement the state management function; develop mechanisms and policies on environmental protection fund to submit to the competent agencies for promulgation; advise and support local environmental protection funds in the process of implementing procedures, lending process while financing environmental protection projects will plays a minor role in the processes of the Vietnam Environmental Protection Fund.

The provincial environmental protection funds in the future will be established in most localities for the urgent need of investment loans for environmental protection field to solve the lack of capital investment. The provincial environmental protection funds operate independently of each other with stable funding granted annually from the state budget and the revenues from taxes, fees, fines for administrative violations in the environmental field and other sources. Besides the establishment of additional provincial funds for environmental protection, strengthening the coordination between the local

environmental protection funds with commercial banks is essential in the implementation of the lending process, especially in stage evaluating and ranking projects to improve lending performance to borrowers, in particular, commercial banks will act to provide audit information on the target application at the request of the fund and provide financial analysis and evaluation of the effectiveness of the proposed loan... In addition, the participation of commercial banks will contribute to increasing the confidence of domestic and foreign investors, which will increase funding for the fund.

However, as the local environmental protection funds are being supported from the state budget, the local funds need to implement performance reports, quarterly and annual reports of operations not only on quantity but also the efficient use of capital that the funds have supported to the Vietnam Environmental Protection Fund to ensure an overview of the operation and efficient use of capital of each fund, identify the difficulties and problems and propose timely solutions.

For private environmental protection funds

In order to improve competitiveness, programs, projects and investments in the field of environmental protection at the local level, organizations and individuals have the right to establish private funds for environmental protection at the local level on the basis of a set of criteria in accordance with the requirements of the Law on Business Enterprise and other provisions of law. These funds will operate independently, regardless of the state budget, with activities decided by the members or shareholders of the fund and mobilize contributions from various sources. Management Council of these funds can be diversified with the participation of stakeholders from businesses, other organizations and the scope of the project receiving more loans can be extended and not restricted by the management policy of the State.

The establishment of these private funds in Vietnam will contribute to both performance of the State management function in the field of environmental protection and support projects under the environmental direction of the State and the national plan through the Vietnam Environmental Protection Fund and local funds, simultaneously attracting and increasing investment in environmental protection, improve loan performance, solve problem of lack of funds for environmental projects through the participation of the private funds. In addition, the implementation of this model will enhance competition in lending activity between local environmental protection funds and private funds, reduce stagnation in lending activities of the fund due to local environmental protection advantage is financed from the state budget.

6 CONCLUSIONS

Vietnam is under the processes of urbanization and industrialization with increasing number of business types and environmental issues, making environmental problems more complex and difficult to deal with for the business and management agencies. The adverse impacts to the environment from economic activities of enterprises are causing

increasingly serious in terms of frequency and magnitude. This is one of the problems that the world in general and Vietnam in particular should pay special attention.

Before these changes create harms to the environment, the Party and State have advocated policies properly and promptly to prevent, limit and overcome the consequences caused by economic development. As the units of the Ministry of Natural Resources and Environment, Provincial People's Committee and/or Department of Natural Resources and Environment, the system of Environmental Protection Funds has implemented many programmes and projects with the main task of financial supports for programmes, projects and business enterprises engaged in environmental protection. The Environmental Protection Funds have completed its role quite well and are growing step by step. Besides weaknesses that should be overcome to become more complete, the Fund should also direct its operation to become a commercial bank fund in natural resources and environmental sector in the future. It is also a contributing factor to achieve the goal of becoming a country with sustainable development economy.

The thesis has summarised and analysed the obstacles and situations the Vietnam Environmental Funds from national to provincial levels faced during the past years. The difficulties are of various types.

On policy and technical issues, the process of attracting capital from other sources is unstable and very difficult due to the size of the fund is not large enough to attract the attention of organisations and individuals inside and outside the country. Additional funds provided annually from the state budget for the Vietnam Environmental Protection Fund also face many obstacles and difficulties. The investment environment is a type of investments that do not bring direct economic benefits, but contains many unpredictable risks. Deposits for environmental restoration in mineral exploitation face various difficulties and shortcomings due to low level of compliance. Management of CDM projects remains a challenge due to a lack of institutional arrangement, technical capacity and support for relevant authorities.

On institutional arrangement and policy making, members of the Fund's Management Council mostly work on part-time basis with limited time spent for operating and managing the Fund. There is no defined mandate of state management authority on financial issues for the environmental protection funds in Vietnam from the Ministry of Finance and Ministry of Natural Resources and Environment. The relationship between the Vietnam Environmental Protection Fund and the state management agencies and other related competent authorities has not yet been specified. There is no official policy or legal document defining the relationship between Vietnam Environmental Protection Fund and the provincial environmental protection funds.

With those above-analysed challenges, there are a number of immediate works that the Government of Vietnam should consider to enhance the effectiveness of the Vietnam Environmental Protection Fund and its provincial branches, including:

- redefine the state management function of finance of Vietnam Environmental Protection Fund by the Ministry of Finance and Ministry of Natural Resources and Environment;
- increase the charter capital from the state budget to the environmental protection fund to promote operational efficiency;
- enhance the economic policy of natural resources and environmental sector and strengthen economic tools to generate revenue for the fund;
- develop and issue guidelines and regulations for organizations and individuals who have made environmental improvement and restoration;
- agree to support the activities of the Steering Committee to implement the UNFCCC and the Kyoto Protocol on CDM and other future mechanisms;
- complete the legal system regarding the policies and activities of the fund, renew mechanisms and policies in financing activities to attract targets with the needs to invest in environmental protection field;
- adjust the interest rate applicable for the targets with investment loans for environmental protection, and review the time period of a preferential interest rate throughout the loan term;
- issue legal documents to define the relationship between Vietnam Environmental Protection Fund and the state management agencies; and
- issue written regulations on the coordination between Vietnam and the Environmental Protection Fund and provincial environmental protection funds.

With the specific objectives mentioned above, the findings of the task was to systematically examine the organisation, experience and operation of environmental funds in some countries in the world and evaluate results as well as the difficulties, problems and inadequacies existing in the Vietnam Environmental Protection Fund and provincial environmental protections funds, and recommend solutions to improve the performance of the Fund.

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